Australian Government
Auditing and Assurance Standards Board

AUDITOR REPORTING – AN EXPLANATION AS TO WHAT USERS CAN EXPECT TO SEE IN THE COVID-19 ENVIRONMENT

COVID-19 has resulted in high levels of uncertainty about the economy, future business activity, asset and liability values, and future earnings of many entities. Depending on the specific circumstances of each entity, this may result in more modified audit opinions and additional disclosures in the auditor's report than in previous years.

The purpose of this publication is to explain what types of audit opinion the auditor may provide and under what circumstances, as well as what the additional disclosures in the auditor's report means.

To provide readers with a clearer understanding of what the different types of audit opinion are and what they mean we have 'colour coded' each as follows:

Audit opinion types identified as being 'Green' represent unmodified opinions. This means that the auditor has concluded that the financial report is prepared, in all material respects, in accordance with the financial reporting framework. Green means users can have confidence that the financial report is free from material misstatement.

The audit opinion types classified as 'Amber' are also unmodified opinions as the financial report is materially correct however the auditor wants to alert users' to significant matters and / or specific disclosures in the financial report. Yellow is a warning light to users of the financial report to read the disclosures which the auditor is alerting them to.

An audit report classified in this document as being 'Red' is a modified opinion. There are three types of modified opinions:

Qualified - the concludes that the financial report is materially correct, "except for" the specified account balances, transactions or disclosures detailed in the audit report. This is a less serious modification than an adverse or disclaimer (described below). Users should read the auditor's report to understand the areas of the financial report that are materially misstated.

Adverse or Disclaimer – the auditor concludes that the financial report is not materially correct, or that the auditor cannot conclude due to inability to gather sufficient appropriate audit evidence or multiple uncertainties. The financial report cannot be relied upon.

The AUASB has been monitoring auditor reporting for listed entities who have reported since COVID-19 pandemic was announced, and whilst to date there is only a small number who have reported, we have included observations in this publication, to assist other auditors.

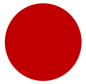
This publication is relevant for auditor's reports of listed, non-listed, not-for-profit and public sector entities.

The following table explains what the auditor's report mean.

Auditor's report	Circumstances	Examples of how the impact of COVID-19 may impact	AUASB comment
Opinion - Unmodified	Unmodified opinion is issued when the auditor has concluded that the financial report is prepared, in all material respects, in accordance with the financial reporting framework. This means: • The accounting policies selected and applied are appropriate; • The accounting estimates made by management are reasonable; • The information presented is relevant, reliable, comparable and understandable i.e. all information which should be included is; • There is adequate disclosure to enable intended users to understand the effect of material transactions and events; and • The auditor was able to gather sufficient appropriate audit evidence in relation to the above.	The auditor concludes that they have sufficient appropriate audit evidence that the material impacts of COVID-19 on the entity have been appropriately reflected in the financial report as: • The judgements made by management in determining accounting estimates and other uncertainties are reasonable in the circumstances; • There is adequate disclosure to enable the intended users to understand the effect of material transactions and events as a result of COVID-19.	Most auditor's opinions are unmodified and this will still be appropriate IF the auditor concludes they have sufficient appropriate audit evidence, that key judgements and assumptions used in the preparation of the financial report are appropriate, and there are adequate disclosures.
Key Audit Matters	Listed entities are required to communicate key audit matters (KAMs) which are those matters which were of most significance in the audit of the financial report of the current period. KAMs are those	COVID-19 may impact the communication of KAMs as follows: • The matters which are determined to be KAMs may change from those reported in prior years, as the auditor focuses on the most significant	The AUASB have been monitoring listed company auditor reporting in Australia since the COVID-19 pandemic was announced, and have observed that approximately 67% of auditor's reports on March 2020 year end financial reports included KAMs which describe the impact of

	matters which required significant attention by the auditor. KAMs are areas where there is a higher risk of misstatement and usually involve significant auditor judgement.	matters in the current audit. For example, focusing on account balances, classes of transactions or disclosures which are significantly impacted by the greater uncertainty in the current environment, which may require additional auditor attention than in previous audits. • The description of the KAMs includes the procedures the auditor performs to address the impact of COVID-19 on the matter. For example, audit procedures performed over impairment models and cash flow estimates describe how management have considered COVID-19 in their key assumptions and the procedures the auditor has conducted over these.	COVID-19 on specific line items or elements which were determined to be KAMs and the procedures the auditor conducted to address this.
Material uncertainty related to going concern paragraph **(MURGC)**	The auditor issues an unmodified audit opinion and has concluded that the going concern basis of accounting is appropriate, however there is material uncertainties that may cast significant doubt on the company's ability to continue as a going concern, and the auditor describes this in MURGC paragraph. Importantly the auditor has concluded that the material uncertainty is adequately disclosed in the financial report, or they will have modified their opinion in relation to this.	Current higher levels of uncertainty about the economy and future business activity as a result of COVID-19 may result in the auditor concluding that there is a MURGC. If the auditor concludes there are inadequate disclosures explaining the material uncertainty they issue a modified opinion and do not include a MURGC paragraph.	There are well documented higher levels of uncertainty about the economy and future business activity, especially for certain industries, and this may result in more MURGCs than in previous reporting periods. Users should read the disclosures in the financial report to understand the principle events or conditions which are giving rise to the MURGC, and management's plans to deal with these.

Emphasis of Matter paragraph **(EOM)**	An EOM paragraph in the auditor's report draw users' attention to a matter that is presented or disclosed in the financial report and in the auditor's judgement, is of such importance, that it is fundamental to users' understanding of the financial report.	Examples of disclosures for which auditors may determine it is appropriate to draw users' attention through an EOM paragraph include: • Subsequent events regarding the significant uncertainty of the economic environment as at the date of the signing of the financial statements (mainly December 2019 year ends). • The impact on operations to date and how the entity has considered the uncertainty in the preparation of the financial statements	There may be more EOM paragraphs than in previous reporting periods, as auditors highlight important disclosures in the finnaical report which they consider are fundamental to users' understanding of the financial report. The AUASB have been monitoring listed company auditor reporting in Australia since the COVID-19 pandemic was announced and have observed that approximately 16% of auditor's reports issued during this period on December 2019 to 31 March 2020 year-end financial reports included an EOM in relation to COVID-19 disclosures.
Other Matter Paragraph **(OMP)**	An optional paragraph which may be included in the auditor's report to communicate a matter other than those that are presented or disclosed in the financial report, that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.	Auditors who do not communicate KAMs (i.e. as a non-listed entity) may elect to communicate matters relevant to the conduct of the audit, for example how they changed their audit approach.	OMP are not very common in auditor's reports, however they are an option for auditors to include if COVID-19 has had a significant impact on the audit approach, and they believe there is value in this communication.
Other Information Paragraph	Other information is information in the entity's annual report (but outside the financial report). The auditor's opinion does not cover the other information and, accordingly, the auditor does not express an audit opinion thereon.	There is likely to be more detailed disclosures of the impact of COVID-19 on the results of the entity and its future prospects, especially in the Operating and Financial Review (for listed entities) and / or the Directors' Report.	Auditor's consideration as to whether there is an inconsistency in the Annual Report and the financial report, or the auditor's understanding of the entity, is very important in the current environment. It is very rare in practice to see an inconsistency in the other information paragraph, as management are likely to correct

	However the auditor is required to read and consider whether the other information is consistent with the financial report and their understanding of the entity, and report if they identify an inconsistency in the other information paragraph.		the inconsistencies before the auditor's report is issued once any are identified.
Modified Opinions			
Qualified Opinion 	The auditor concludes that the financial report is free from material misstatement, "except for" the specific account balances, transactions or disclosures detailed in the "basis of qualified opinion" in the auditor's report. A qualified opinion is appropriate where a misstatement can be confined to specific elements, accounts or items of the financial report, i.e. They are not pervasive to the financial report (refer ASA 705 paragraph 5).	For example the auditor may issue a qualified opinion where they conclude the financial report is free from material misstatement except that: • They disagree with assumptions in a cash flow model used by management in impairment calculations, • There is adequate disclosure to appropriately describe the effects resulting from COVID-19, including sufficient description of risks, assumptions and judgements made; • There is adequate disclosure of a material uncertainty related to going concern (but the impact is not pervasive); or • There is insufficient audit evidence due to access restrictions due to government imposed lockdowns.	A qualified opinion is where there is a "disagreement" between management / those charged with governance and the auditor about a particular matter(s). While we have not observed any qualifications from our observations of listed entities to date, we anticipate that there may be more qualified opinions due the reasons detailed in this table. However it is important that preparers and auditors communicate throughout the audit process to resolve matters which may result in a qualified opinion, and to agree on the adequacy of disclosures.

Adverse opinion	The auditor concludes that the financial report is not free from material misstatement AND the misstatements are so material and pervasive to the financial report, that they result in the auditor believing that the financial report is misleading. An adverse opinion is appropriate where a misstatement cannot be confined to specific elements, accounts or items of the financial report, ie. are pervasive to the financial report (refer ASA 705 paragraph 5). An adverse opinion is more serious than a qualified opinion and is communicating that the financial report as a whole cannot be relied upon.	For example, an auditor may issue an adverse opinion when they conclude that: • Management's key judgements and assumptions are not based on relevant evidence and these impact multiple line items in the financial report with the auditor concluding this is pervasive to the financial report; or • There is inadequate disclosure of a material uncertainty related to going concern (impact is pervasive).	Adverse opinions have been very rare in practice and we have not observed any such opinions from our observations of listed entities from our research for the year to date. Users' should read the Basis for Adverse Opinion paragraph to understand the basis for the opinion. We expect them to continue to be rare in practice. For this to occur it is important that preparers and auditors communicate throughout the audit process to resolve misstatements including those in relation to the adequacy of disclosures, to minimise misstatements and the instances where an adverse opinion is required.
Adverse opinion (going concern basis of accounting is inappropriate)	The auditor disagrees with the management's use of the going concern basis of accounting in the preparation of the financial report. In other words, the auditor concludes the going concern basis of preparation of the financial report is inappropriate. This again is a very serious form of qualified opinion.	It is possible that there may be more instances where the auditor conclude that the going concern basis of preparation is not appropriate for the entity due to significant uncertainties as to the future economy and prospects of an entity.	Adverse opinions due to the going concern basis of acounting being inapproprate have been very rare in practice, and we have not observed any such opinions from our observations of listed entities from our research for the year to date.. There may be more instances in the current environment. When evaluating management's assessment as to the entity's ability to continue as a going concern auditors should raise concerns if the auditor does not consider they have included all relevant information.

Disclaimer of opinion	The auditor has been unable to obtain sufficient appropriate audit evidence on which to base the opinion, and concludes that the possible effects of the undetected misstatements could be material and pervasive. OR The auditor has sufficient appropriate audit evidence, however there are multiple uncertainties and the auditor is unable to form an opinion. Pervasive means misstatements cannot be confined to specific elements, accounts or items of the financial report, i.e. are pervasive to the financial report (refer ASA 705 paragraph 5). A disclaimer opinion is more serious than a qualified opinion due to material uncertainty, and is different to an adverse opinion, in that the adverse opinion means the auditor concludes the financial report is misleading, whilst a disclaimer means the auditor is unable to form an opinion. Like an adverse opinion it is a very serious modification and is communicating that due to the material and pervasive uncertainties the financial report as a whole cannot be relied upon.	For example an auditor may conclude that they do not have sufficient appropriate audit evidence due to: • Not having adequate access to the accounting records or audit evidence due to government travel restrictions; or • Not having access to the auditor's documentation for a material joint venture and therefore were unable to determine if the proportionate share of the entity's assets are materially correct; or • Management unwilling to make or extend their going concern assessment.	Disclaimers have been very rare in practice, and we have not observed any such opinions from our observations of listed entities from our research for the year to date. Users' should read the Basis for Disclaimer Opinion paragraph to understand the basis for the opinion In the current COVID-19 environment auditors may also find it challenging when assessing if there is sufficient appropriate audit evidence especially in areas of judgement, as well as an inability to perform planned audit procedures. Auditors have a duty to form an opinion if possible and should exhaust all effective alternative means of obtaining sufficient appropriate audit evidence. It is important that preparers and auditors communicate throughout the audit process to resolve issues in obtaining audit evidence and to minimise the possible undetected misstatements and uncertainties. Appropriate disclosures of uncertainties are encouraged to minimise misstatements and the instances where disclaimers are issued.