

# Navigating auditors' reports in a COVID-19 world

*Insights for investors and other stakeholders*



# About this publication

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COVID-19 has created major challenges for the 2020 financial reporting and auditing season, mainly due to physical access restrictions and substantial economic uncertainty. In such an environment, the role of audited financial statements to inform investors and other stakeholders and bring critical integrity and confidence takes on a renewed importance.

The auditor's report on financial statements is how auditors communicate with investors and other stakeholders. While the structure of an auditor's report is largely consistent between entities, the value is in the content which is unique to the entity and to the reporting period concerned. The content of an auditor's report will be affected by how

management and those charged with governance have responded to the consequences of COVID-19, and the evidence available to the auditor at the time.

This publication aims to help investors and other stakeholders understand what the different types of audit opinion mean, as well as how the other components fit into the auditor's report. The impacts of COVID-19 are many and varied, but there is some commonality. Therefore, this publication also highlights what we expect to see more of in auditors' reports as a result of the pandemic, and where investors can focus to get the most out of these important documents.

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Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

# Independent auditor's report

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This example auditor's report aims to assist investors and other key stakeholders understand the different types of audit opinions and other components in an auditor's report. This also highlights what we expect to see more of in the auditor's report as a result of the impacts of COVID-19.

To the shareholders of XYZ

## Opinion

This is the auditor's overall opinion of the financial statements and can either be:

- **Unmodified** – when the financial statements materially comply with relevant standards and legislation; or
- **Modified** – when the financial statements may not or do not comply with relevant standards and legislation. There are three types of modified opinions as follows:
  - **Qualified** – **this is possible in two situations:**
    - › the auditor is unable to obtain the evidence required concerning a particular area but the remainder of the financial statements comply with relevant standards and legislation; or
    - › a specific isolated area of non-compliance with the required rules has been identified but the remainder of the financial statements comply with relevant standards and legislation.
  - **Disclaimer** – the auditor is unable to obtain the evidence required concerning a number of significant areas and is therefore unable to determine whether the relevant standards and legislation have been followed.
  - **Adverse** – a number of significant departures from the relevant standards and legislation have been identified, therefore the financial statements cannot be relied upon.



This is an important first step in reading the auditor's report. It will give you an overall perspective on how auditors have concluded and their views on the reliability of the financial statements. We expect to see more 'modified opinions' as a result of COVID-19, e.g. when the auditor is unable to attend the stocktake due to physical access constraints and cannot get the evidence required over stock quantities any other way.

## Basis for Opinion

This explains how the opinion was arrived at and is required regardless of whether the opinion is unmodified or modified. This also describes the existence of any other services auditors have provided to the entity other than the audit.

## Material Uncertainty Related to Going Concern

This is used when the entity is a going concern (it is expected to continue trading for the foreseeable future) but there is significant uncertainty around the future, and there is a note in the financial statements which explains:

- The principal events or conditions that may cast doubt on the entity's ability to continue as a going concern;
- Management's plans for dealing with these events or conditions;
- That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- That, therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



Where you see this section it is important to turn to the note referenced in the financial statements to understand the nature of the uncertainty and why management still believe they can continue. We expect to see more 'material uncertainty related to going concern' sections due to the economic uncertainty COVID-19 has created. Including this section does not 'modify' the auditor's opinion or indicate misstatements, it is intended simply to draw the reader's attention to uncertainty in relation to the entity's future.

## Key Audit Matters

This is required for listed entities in Australia and financial market conduct (FMC) reporting entities considered to have a higher level of public accountability in New Zealand, unless there is a disclaimer of opinion. These are matters which were most significant in the audit of the current period. It includes a description of the matter and how the matter was addressed in the audit.



This shows you where the auditor spent the most time and effort. We expect to see more 'key audit matters' that refer to COVID-19, e.g. areas where COVID-19 made it difficult for the auditor to obtain the evidence required so significant work effort was needed. One such example is where a lot of work has been done around asset valuations and impairment testing.

## Emphasis of Matter

This is used to draw attention to a matter, which is explained in a note in the financial statements, that is fundamental to investors' understanding of the financial statements. Where the matter is included as a 'key audit matter' an 'emphasis of matter' paragraph is not used.



Where auditors have flagged information in the financial statements for this kind of special attention, it is likely to be very important for understanding the overall document. We expect to see more 'emphasis of matter' paragraphs that refer to COVID-19, e.g. management's analysis of the impact of COVID-19 on the business's operations or property valuations where valuers specifically reference in their reports a material valuation uncertainty related to COVID-19.

## Other Matter

This is used to draw attention to a matter, which is not explained in a note in the financial statements, that is relevant to investors' understanding of the audit, the auditor's responsibilities or the auditor's report, e.g. if the financial statements of the prior period were audited by a different auditor.

## Other Information

Other information refers to the information in the annual report, outside of the financial statements, that the auditor is required to read and consider for consistency with the financial statements and their knowledge obtained in the audit. It identifies the other parts of the annual report obtained by the auditor (if any) before the auditor's report is issued, as well as those parts expected to be obtained after the auditor's report is issued. If the auditor identifies a material inconsistency in the other information they communicate it in this paragraph.

This is always required for listed entities in Australia and FMC reporting entities considered to have a higher level of public accountability in New Zealand.

For other entities this section is only required when other parts of the annual report are obtained before the auditor's report is issued. Therefore, if no other parts of the annual report are obtained before the auditor's report is issued this section is not required.

## Director's Responsibilities for the Financial Statements

This section is always required and describes the responsibilities of the directors, including for preparing the financial statements in accordance with the required rules and assessing whether the business is a going concern.


## Auditor's Responsibilities for the Audit of the Financial Statements

This section is always required and includes a description of what an audit is and the objectives of an auditor. The content can either be in the body of the auditor's report, as an appendix to the auditor's report, or there may be a cross-reference to the Australian and New Zealand auditing standard setter websites which set out the responsibilities.

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1934-AUG-2020