BULLETIN: GUIDANCE FOR AUDITORS AND MATTERS TO CONSIDER WHERE ENGAGEMENTS ARE AFFECTED BY CORONAVIRUS (COVID-19) – Updated December 2020

This Bulletin is intended to provide guidance to auditors, carrying out audit engagements that may be affected by COVID-19. It is driven by two factors:

- In order to be able to give an audit opinion that is not subject to a disclaimer or qualification due to a scope limitation, the auditor must always obtain sufficient, appropriate audit evidence.

- Even in challenging times, the flow of high quality, independently assured information to support the functioning of capital markets is of fundamental importance. Reporting on audit engagements should be driven by the information needs of users of audited financial statements.

Uncertainty about the immediate outlook for many companies remains high. This has consequences for companies proposing to report results in the coming months, and for their auditors. The FRC, Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) have previously announced a **series of actions** to ensure that information continues to flow to investors and to support the continued functioning of the UK's capital markets.

The Financial Reporting Council (FRC) has also published **guidance for companies** on disclosure of risks and other reporting consequences arising from the emergence and spread of COVID-19.

Some companies and auditors are continuing to face practical difficulties in preparing accounts and carrying out audits. Given possible restrictions on travel, meetings and access to company sites in some jurisdictions, audit firms may need to apply alternative audit procedures to gather sufficient, appropriate audit evidence.

The FRC remains concerned that the pandemic should not undermine the delivery of high-quality audits. Audits should continue to comply fully with required standards. Additional time may be required to complete audits and it is important that this is taken, even at the risk of delaying company reporting.

Auditors need to consider the impact of COVID-19 on:

- The auditor's risk assessment, and whether it needs to be revised;
- How the auditor gathers sufficient, appropriate audit evidence, recognising that the planned audit approach may need to change, and alternative procedures developed, particularly in group audit engagements. The auditor must be able to gather the necessary evidence to be able to report or consider modifying their audit opinion;
- How the group auditor proposes to review the work of component auditors to meet the requirements in standards, including considering whether alternative procedures can be used: for example, where travel is restricted;
- The auditor's assessment of going concern and the prospects of an audited company, given that uncertainty about the global economy and the immediate outlook for many companies has increased;

- The adequacy of disclosures made by management about the impact on the company of COVID-19, so that users of the financial statements are properly informed, and the company's prospects and how they might be affected are described, recognising the high degree of uncertainty; and
- The need for the auditor to reassess key aspects of their audit as a result of the fast-changing situation, recognising that this assessment will take place right up to the point of signing the auditor's report, and may need the provision of further evidence and information by management. Where the current circumstances have had a significant impact on the delivery of the audit, the auditor will need to consider how to explain this in their report, for example, by reporting this as a key audit matter.

Auditors also need to engage with entities they audit to ensure that:

- The auditor sets clear expectations as to the level of disclosure they expect to see in annual reports to communicate the impact and risk of COVID-19 on the company; and
- Companies, and in particular their audit committees, understand it is vital that auditors have sufficient time and support to carry out their work to an appropriate standard, including reassessing work done to reflect changed circumstances – in some cases, this may need companies to reconsider their reporting deadlines. Where auditors are unable to obtain sufficient, appropriate audit evidence to support their audit, they will need to consider necessary modifications to their audit opinion.

Companies also need to understand that it is vital auditors have sufficient time and support to carry out their work to a high standard, including reassessing work done to reflect changed circumstances. In some cases, companies may need to reconsider their reporting deadlines.

The following is a non-exhaustive list of factors auditors should be considering when carrying out audit engagements in the current circumstances, along with guidance on how they might be addressed. The FRC may issue further guidance, if it is required as the situation develops.

This guidance is intended to help auditors deal with the current situation and should not be considered to be enduring or long-term solutions that will apply when normal circumstances resume. The FRC will withdraw this Bulletin when circumstances return to normal.

Affected Area	Guidance
Acceptance and take-on of new audit engagements	Restrictions over travel and office-based working may make it impossible for an incoming auditor to carry out their review of the previous auditors working papers. Incoming auditors should consider and seek to agree what work can be undertaken remotely, supported by technology to make an assessment. This might include access to the audit file remotely, subject to appropriate confidentiality considerations. This assessment should flag areas where confirmation of certain matters is contingent on being physically present at a later stage and ensure that these outstanding matters are completed before the conclusion of the audit.
Planned Audit Approach	The impact of COVID-19 on the auditor's risk assessment and the proposed response to identified risks may be significant for many entities.

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	Additionally, the planned audit approach may anticipate obtaining audit evidence about internal controls operating around the year end, which the auditor may not be able to obtain due to a lack of audit staff or a lack of access to information or personnel at the audited entity. In such circumstances the auditor will need to consider whether alternative work is necessary, and what alternative audit procedures they can carry out, to obtain sufficient, appropriate audit evidence in support of their audit opinion. At a time when entities are under increased pressure, staff may be working remotely and/or following changed procedures and internal controls may be not be operating as planned, the auditor should also consider whether their assessment of risks of material misstatement due to fraud or irregularity needs to be heightened as a result, and additional audit procedures need to be carried out. The COVID-19 crisis also means that there may be situations where there is a greater risk of fraud. In these situations, as the control environment may be operating differently to expectations, for instance impacting on segregation of duties. The auditor considers the need for additional procedures to address the risk. Risks of material misstatement due to fraud or irregularity may be heightened as a result of, for example: • New ways of working resulting in less effective preventative and detective controls; • Key staff absent due to illness; • Increased pressures to meet financial targets; • Challenges to keep the business operational; • Management and TCWG focussing on operational issues with less attention to fraud risks; • Eagerness to enter into transactions with reduced checks over counterparties; • Reduced security over physical assets; • Improper claims for financial support, such as mistakenly or deliberately claiming furlough payments for employees who are actually working.
Materiality	The impact of COVID-19 on an audited entity may result in non-standard amounts or disclosures being recorded in the financial statements. The auditor may want to consider how to take account of this when setting materiality. The auditor may also need to consider whether a separate materiality level or levels should be determined and applied to the particular related classes of transactions, account balances or disclosures in accordance with paragraph 10 of ISA (UK) 320.
Communication with Those Charged with Governance	Physical meetings of audit committees may be impossible – if so, auditors will need to agree with audit committees

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	how to communicate with them through other means, and how to ensure that sufficient time is set aside by audit committees for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances. Where the auditor intends to modify their opinion, they should engage with TCWG, to explain whether the nature of the modification may be ameliorated by allowing the auditor additional time to undertake their work, and obtain the evidence required. TCWG will need to consider the balance between the timing of reporting and the assurance the auditor is able to provide.
Audit Evidence, including Audit Confirmations	The auditor must seek to obtain sufficient, appropriate audit evidence to support their auditor's report. However, restrictions on travel, movement and visiting client sites may mean this cannot be carried out as planned or cannot be carried out within management's planned timetable for issuance of the audited financial statements. Auditors will need to think about whether there are other ways for them to obtain sufficient, appropriate audit evidence. This might include employing greater use of technology to examine evidence, **but only where the auditor has assessed both the sufficiency and appropriateness** of the audit evidence produced. The basis for this assessment should be clearly documented on the file. That assessment should recognise and explain how the auditor addresses any risk that the quality and reliability of such evidence may be lower, for instance through more directed testing of items evaluated in this way. This needs to be carried out on a case by case basis and will be dependent on the applicable facts and circumstances. **Appendix 1 provides guidance on gathering evidence through remote means.** Some items will still require the testing and verification of original source documentation, or the verification of physical assets and inventories. The auditor may consider which items are absolutely vital to test physically, and where evidence can be obtained through other means. Verification through other means is more likely to be appropriate where balances are less material. A small number of items which need to be physically verified may still be manageable on a case by case basis. The auditor will also need to consider the time criticality of certain procedures (for instance stock-takes at the year-

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	end). In these circumstances, it may be that local restrictions in place mean that work cannot be carried out as planned, and the deferral of necessary procedures may impact on the quality and veracity of the evidence generated. Where physical verification is required, and time critical, and where physical verification procedures cannot be performed, the auditor will need to consider the implications for their opinion. The provision of independent confirmations as a source of audit evidence may also be impacted. Where this is the case the auditor may consider whether available online access to secure systems can be used to obtain the necessary evidence rather than waiting for the provision of a documentary copy. The auditor may also need to consider whether additional time is needed to perform identified procedures to seek to obtain sufficient appropriate audit evidence and, if so, whether such time will be available to the auditor. Management may be able to extend their planned timetable, for example when the planned issuance date is sooner than that required by law or regulation or the rules of a market on which the entity's securities are listed. Where this is the case, the auditor will need to request management to do so. If management refuses to do so, the auditor will need to consider whether such refusal constitutes a limitation on the scope of the audit imposed by management. If so, the auditor will need to communicate with the audit committee and take other appropriate actions to comply with the requirements of paragraphs 11 to 14 of ISA (UK) 705 (Revised June 2016).
Compliance with Laws and Regulations	Improper claims for financial support, for example making claims under the Coronavirus Job Retention Scheme for employees said to be furloughed but who are actually working, could result in liabilities for repayment and fines. The auditor takes this into account when assessing the risks of material misstatement in the circumstances of the entity and, if the auditor becomes aware of such claims, considers the impact on audit. Auditors are reminded in the current circumstances that when auditing a Public Interest Entity, they are required to report promptly to the regulator any information concerning that public interest entity of which the auditor has become aware while carrying out the audit and which may bring about any of the following: (i) A material breach of the laws, regulations or administrative provisions which lay down, where appropriate, the conditions governing authorisation or which specifically govern

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	pursuit of the activities of such public interest entity; or (ii) A material threat or doubt concerning the continuous functioning of the public interest entity; or (iii) A refusal to issue an audit opinion on the financial statements or the issuing of an adverse or qualified opinion. Additionally, auditors of PIE entities should notify the FRC of situations where they expect to report on material uncertainties in the same way. Reports can be made to AAT@frc.org.uk
Going Concern	The going concern assessment made by management is a fundamental part of the audit that may be significantly affected by the current circumstances. The FRC issued a revised ISA (UK) 570 in September 2019, which is effective for periods commencing on or after 15 December 2019. It requires a more structured and rigorous auditor risk assessment, greater work effort and expanded reporting. When performing an audit for which the revised standard is not yet effective, auditors may consider using some or all of the requirements in the revised standard to help them to carry out their risk assessment and to undertake their work in this area to the necessary high standard. The requirements over going concern reporting in paragraphs 19-22 of the standard may be particularly helpful. We expect, given the current uncertainty and volatility, that more companies and auditors may need to consider reporting on material uncertainties. Where they do so, this should draw on the available facts and circumstances. Auditors should not generically report on material uncertainties. Governments globally have announced the availability of business support packages for affected entities, which to date have focused on providing liquidity to affected entities, with some measures to also cover business costs (e.g. salary costs for furloughed staff) in certain circumstances. Many entities have also imposed measures to control costs and conserve available cash. We still face uncertainty about the economy and consequent future earnings of companies over the next 12 months. I In this uncertain environment, going concern assessments will be more difficult for entities to make, and more companies will need to report a material uncertainty related to going concern. Companies and auditors should explain to investors the effect on their business of the current public health restrictions in different countries,

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	sensitivities in different short term scenarios, for example the length and nature of public health restrictions that are in place or may evolve during the period of assessment. It will be important in making any assessment of going concern to ensure that companies and their auditors evaluate whether the entity both has access to sufficient liquidity and can remain solvent through the period of public health restrictions and beyond. Companies and their auditors will need to take into account the terms of their financing facilities, the terms of any liquidity or other support accessed and whether any such support taken on gives rise to future obligations. Deferral of payments now, or the receipt of grants to offset costs may alleviate liquidity challenges but may affect the entity's solvency if the liquidity support does not continue long enough for the entity to recoup those losses from future profits. Liquidity and solvency risks faced by the entity may be inter-related and either or both may affect its going concern status and whether it faces material uncertainties related to going concern. Auditors will need to ensure that their assessment of going concern and the evidence that they need to gather in support of that explicitly considers both liquidity and solvency factors which may affect the ability of the directors to assert that the entity is a going concern and to identify and related material uncertainties. We anticipate in the current circumstances that the auditor's going concern work will be more extensive, require more evidence, and will continue to be performed through to the point of signing the auditor's report. In view of this, more evidence may be required from the entity and the auditor should set a clear expectation with the audited entity of the additional time that will be needed to complete the audit in this area to the high standard that users of the financial statements will expect. In addition, auditors should exercise professional scepticism where management and TCWG have determined that the current circumstances are not reasonably expected to have any material financial impact on the audited entity and that no material uncertainties related to going concern exist for the entity.
Group Audits	In a group audit engagement, the potential impact of COVID-19 may affect the audit in two main areas. The first is that the auditor may be unable to obtain sufficient, appropriate audit evidence to support their opinion. This may be because components operate in areas where restrictions apply, for instance, over travel or over access to information. Where this is the case, the group auditor considers what alternative procedures they

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	can carry out to obtain the necessary evidence. This may be by carrying out additional procedures at the group level to gain assurance, including through greater use of remote working where this is possible, or through deploying staff who are able to operate in affected jurisdictions to provide the group auditor with the necessary evidence. A further challenge may arise where the group auditor is unable to carry out their review of component auditor working papers as planned, as required by paragraph 42-1(a) of ISA (UK) 600. We are aware that many firms believe the most effective review is one that they can carry out in person. However, with current travel restrictions in many jurisdictions, and restrictions over accessing information remotely in others, firms will have to determine whether they can find other ways to review component work, including through remote access, in a manner that is effective. There is no reason why a thoroughly executed and clearly documented electronic and video review of component auditors' work cannot satisfy the requirement in the standard. If the work cannot be reviewed, then it cannot provide sufficient appropriate audit evidence, and the group auditor will have to determine whether they can obtain the necessary evidence by carrying out additional procedures at the group level. Where this is not possible, the auditor will need to consider the impact on their report. As noted above, the auditor may also need to consider whether the performance of procedures they consider necessary to seek to obtain sufficient appropriate audit evidence would require deferral of the planned issuance date of the audited financial statements and, if so, the implications for the audit.
Access to Information	Auditors of Public Interest Entities are reminded of the need to notify the FRC as Competent Authority where they are unable to access information from a component auditor.
Quality Control	Auditors will need to comply with all of the requirements in respect of quality control in ISQC (UK) 1 and ISA (UK) 220. However, in the current circumstances, some meetings, discussions and access to files will be virtual and facilitated through technology. Given this, the auditor will need to document clearly on the file how the direction, supervision and review process was structured and operated to overcome obstacles, and how communication with team members and in particular: key audit partners; engagement quality control reviewers; and any firm technical reviewers was maintained.
Reporting – Key Audit Matters (when ISA (UK) 701 applies)	Where the impact of COVID-19 is, in the auditor's professional judgment one of the most significant matters having an impact on the audit of the financial statements, including those which had the greatest effect on: the overall

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	audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team, then the auditor considers reporting this as a key audit matter. In reporting a key audit matter, the auditor does not use boilerplate language, but reports in a way that informs users of the auditor's report and the financial statements in a way that will support effective decision making by those users. That will require careful case-by-case consideration of the applicable facts and circumstances. Reporting might also provide context for users about the circumstances in which the audit has been carried out, and the impact of those circumstances on the way the auditor has concluded on significant judgments. A key audit matter paragraph can also be used to satisfy the requirements in ISA (UK) 706, where the auditor might consider an emphasis of matter paragraph.
Reporting – Scoping	Auditors might consider it helpful to also include more information in the scoping paragraph of their auditor's report reference to the particular circumstances in which the audit was carried out and the impact that this had on the overall audit approach. This might provide further context useful to users. Again, this should not use boilerplate text and should reflect the facts and circumstances on a case-by-case basis.
Reporting – Modified Opinions	It may be likely that the current circumstances lead to more modified opinions in auditor's reports, than would typically be the case. <u>Scope limitation</u> Where an auditor cannot obtain sufficient appropriate audit evidence, then the auditor is required to modify their opinion in that respect. Where the possible impact on the financial statements could be both material and pervasive, then the auditor is required to disclaim their opinion or if it is material but not pervasive, to express a qualified opinion. <u>Misstatements</u> When an auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are material, the auditor is also required to modify their opinion in that respect. When the effect of such misstatements is both material and pervasive, the auditor is required to express an adverse opinion. Auditors should remain alert to the possibility that, in the current circumstances, misstatements may occur. Such misstatements may arise, for example, due to: the application of the going concern basis of accounting when

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	it is not appropriate; the omission of disclosures about a material uncertainty relating to going concern; or a failure to recognise adequate impairment of assets or adequate provisions for obligations or to provide related disclosures. **Appendix 2 provides further guidance on modifications of independent auditor's opinions and reports.** <u>Communication with TCWG</u> The auditor engages with TCWG to explain the implications of their proposed report and consider whether there are other procedures that could be undertaken, at a future point yet to be determined which could mitigate any modification either fully or in part. This guidance recognises that auditors may be innovative in determining how they plan and perform their audit, and how they ensure that they have sufficient, appropriate audit evidence. However, equally we recognise that there may be occasions where the auditor cannot overcome the limitations in the evidence available to support their audit and recognises that further delay would not change this.
Subsequent Events	Financial reporting frameworks distinguish between those events occurring after the balance sheet date that provide more information about the conditions that existed on the balance sheet date ("adjusting events") and those that are indicative of conditions that arose after the balance sheet date ("non-adjusting events"). Amounts in the financial statements must be adjusted in response to adjusting events whilst only disclosures are required in response to material non-adjusting events. Companies will need to judge how much of the impact of COVID-19 should be considered to arise from non-adjusting events for subsequent reporting dates. This will be highly dependent on the reporting date, the specific circumstances of the company's operations and the particular events under consideration. Given the potential magnitude of these events, auditors will need to carefully consider what evidence they will require in support of the disclosure of such events.
Written Representations	Written representations will be obtained by auditors to help confirm positions reported by management. Whilst this is a helpful supplement to the available information, written representations will never, alone, constitute sufficient appropriate audit evidence.
Professional Scepticism	Auditors are always required to carry out their work exercising appropriate professional scepticism. In the current circumstances, auditors will need to consider how

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	they demonstrate and record an appropriate level of scepticism to reflect that engagements may be delivered in a different way. Auditors need to ensure that they appropriately challenge judgments and assumptions made by management.
Partner Rotation	Firms are reminded that the five-year rotation requirement for a key audit partner can be extended to no more than seven years, where there are appropriate reasons (for instance maintaining audit quality), and where the audit committee of the entity agrees. This may provide a basis for supporting audited entities at a challenging time.

Ethical Matters	
Support to Audited Entities	Auditors are reminded that the Ethical Standard permits the provision of a non-audit service to support a public interest entity in addressing a time critical and price sensitive issue, where that service would not undermine the auditor's independence from the perspective of an objective, reasonable and informed third party. This should be taken to include supporting companies in making applications to any of the business support schemes announced by government in response to COVID-19.

Financial Reporting Council
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Appendix 1

Gathering Evidence through Remote Means

The auditor must obtain sufficient appropriate audit evidence to support their auditor's report, be it in support of substantive testing or controls testing. However, restrictions on travel, movement and visiting client sites may mean this cannot be carried out as planned. Auditors will need to think about whether there are other ways for them to obtain sufficient appropriate audit evidence, including through the greater use of technology. Auditors will also need to understand, in modifying their audit approach, how audited entities are changing their operations and the control environment they operate as, for example, business continuity plans are invoked, and what this does to available evidence.

Where audit evidence would normally be gathered through physical means (observation or inspection), the current restrictions mean that these approaches are no longer feasible. However, the auditor can instead consider additional audit procedures that could be performed to enable the auditor to obtain sufficient and appropriate evidence. Determining whether additional or alternative procedures are necessary, and if so, which procedures are to be performed, needs to be carefully considered by the auditor on a case by case basis and will be dependent on the applicable facts and circumstances. It is a judgment call the auditor needs to make, considering explicitly whether evidence obtained electronically is reliable in the circumstances, and is not subject to manipulation.

If auditors are seeking to gather evidence through greater use of technology, including through the use of secure third party systems to provide confirmations, or by the provision of evidence to the auditor through secure live streaming or screen sharing then the auditor considers what factors will allow them to evaluate the appropriateness of that evidence. This assessment includes the risk that evidence might be manipulated, and how this risk can be mitigated.

For example, an auditor may gain sufficient appropriate evidence for a stocktake, by attending it remotely, engaging with staff at the audited entity to challenge those carrying out the work, and requesting items to be counted. This may need to be recorded on the audit file in a different way but allows the auditor to confirm that they have gathered the necessary evidence. Rather than being physically present to observe and inspect processes and control activities to determine whether controls have worked effectively, the auditor might gain sufficient appropriate evidence by carrying out this work through sharing screens, live streaming through secure means, or obtaining screen shots of the different stages of the process that verify the effective operation of controls.

Technology is widely used in business, and by auditors. It is not possible, and would not be desirable, to compile an exhaustive list of procedures, as any procedure is not guaranteed to provide sufficient, appropriate evidence. However, innovation, a careful assessment of each source of evidence, and clearly recording the judgments taken and the rationale for them will enable auditors to find new ways of delivering their work.

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Modifications of Independent Auditor's Opinions and Reports

Two key objectives of any auditor are to obtain sufficient, appropriate audit evidence to support their audit opinion, and to then report their opinion on the financial statements based on the evidence obtained.

During the COVID-19 pandemic, the need for a modified opinion may arise because certain audit procedures cannot be performed (for example physical inventory testing because of travel restrictions), and no other procedures can be undertaken to produce the required volume or quality of reliable audit evidence. Alternatively, management's key judgements in areas such as asset and liability valuations, or the assumptions and cashflow estimates underpinning the use of the going concern basis of accounting, may be difficult to support in the light of wider economic and political uncertainty, or not agreed by the auditor.

Modified Opinions

Two primary factors contribute to the kind of modified opinion which auditors can give.[1] These are:

- whether the auditor has been able to obtain sufficient, appropriate audit evidence to form an opinion on whether the financial statements are free from material misstatement; and

- how pervasive any error may be to the financial statements.

As a result, audit opinions may be modified in the following ways:

Qualified Opinion

Where an auditor concludes that there is either a lack of sufficient appropriate audit evidence, or actual (or potential) material misstatements in a set of financial statements, but that it is limited to a specific set of balances, transactions or disclosures, then the qualification of the auditor's opinion only applies to those items. In this case the auditor is reporting that 'other than' the specific items described, they have concluded that the financial statements are otherwise true and fair.

This is **not** the same as where an auditor is prevented by management from obtaining sufficient appropriate audit evidence (a 'limitation of scope'). Where this is the case the auditor may withdraw from an engagement, give a qualified opinion, or disclaim their opinion depending on the circumstances.

[1] International Standard on Auditing (UK) 705 (Revised June 2016), *Modifications to the Opinion in the Independent Auditor's Report*

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Adverse Opinion

Where the auditor concludes on the basis of sufficient, appropriate evidence that material and pervasive misstatements exist that undermine the reliability of the financial statements as a whole then they give an 'adverse' opinion.

Disclaimer of Opinion

Where the auditor has not been able to obtain sufficient, appropriate audit evidence to be able to give an opinion but concludes that potential material and pervasive misstatements may exist, then they 'disclaim' their opinion entirely.

We have included a diagram at page 4 of this guidance setting out the decision-making process an auditor follows when considering a modified opinion, and the circumstances that apply in each case. This is intended to provide the users of financial statements with a better understanding of why an auditor has modified their report. This occurs where, either an auditor is unable to obtain sufficient, appropriate audit evidence (because it is no longer possible to perform relevant audit procedures or because of the inherent uncertainty about the impact on a company of the pandemic); or because they disagreed with management; and the extent to which this undermines the reliability of part, or all, of a set of financial statements.

Additional disclosures in the Independent Auditor's Report which are <u>NOT</u> modifications of the opinion

Users of financial statements may also find additional disclosures within the auditor's report, which do not affect or change the auditor's opinion, which remains unqualified. These include:

- Key Audit Matters[2]

  Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. Users of financial statements should note that matters giving rise to a modified opinion are **<u>not</u>** included within the Key Audit Matters section of the auditor's report, but under a separate heading. Similarly, issues relating to going concern are only included within the Key Audit Matters section of the auditor's report when the auditor has concluded that management has accounted for going concern appropriately and there is no material uncertainty about the company's ability to continue as a going concern.

- An Emphasis of Matter[3]

  A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

[2] ISA (UK) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
[3] ISA (UK) 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

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- Certain disclosures relating to going concern[4]

  The auditor is required to make certain additional disclosures relating to going concern where management's accounting treatment is appropriate and:

  (i) where no material uncertainty has been identified - reporting is by exception under the heading 'Conclusions relating to Going Concern'

  (ii) where a material uncertainty has nevertheless been identified, and this is appropriately disclosed in the financial statements – reporting is under the heading 'Material Uncertainty Related to Going Concern'

  It is only where the auditor concludes that management's proposed approach to the use of the going concern basis of accounting is not appropriate, or that there is insufficient disclosure about a material uncertainty, that a modified opinion will arise.

  (i) Where the use of the going concern basis is not appropriate, the auditor gives an adverse opinion

  (ii) Where there is insufficient disclosure about a material uncertainty, the auditor gives either a qualified or adverse opinion

  (iii) Where there is insufficient evidence to support management's determination that the financial statements should be prepared on a going concern basis, the auditor disclaims their opinion

  In this case, the auditor's conclusions are set out in a separate dedicated part of their report.

[4] The relevant auditing standard is ISA (UK) 570.

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Modifications to the Auditor's Opinion or Additional Disclosures in the Auditor's Report

- **Additional Disclosures in the Auditor's Report** (Note: Auditor's Opinion remains unmodified in respect of these matters)
  - A matter, appropriately disclosed or presented in the financial statements is of such importance that it is fundamental to the users' understanding of the financial statements
    - **Emphasis of Matter**
      - Auditor does not modify the opinion but adds an **Emphasis of Matter** paragraph to the report, making clear reference to the matter and to where relevant disclosure fully describing the matter can be found
  - The financial statements have been appropriately prepared on a going concern basis, but a material uncertainty exists that is appropriately disclosed in the financial statements
    - **Material Uncertainty Relating to Going Concern**
      - Auditor does not modify the opinion but, under a separate heading entitled **Material Uncertainty Relating to Going Concern**, draws attention to the note in the financial statements that discloses the matter, states that events and conditions indicate a material uncertainty exists and that the auditor's opinion is not modified in respect of this matter
- **Modifications to the Auditor's Opinion**
  - The auditor has been unable to obtain sufficient, appropriate audit evidence to conclude whether the financial statements as a whole are free from material misstatement
    - Pervasive
      - **Disclaimer of Opinion**
        - Auditor does not express an opinion on the financial statements
    - Not pervasive
      - **Qualified**
        - Except for the possible effects of a specific matter or matters, the financial statements give a true and fair view
  - Based on sufficient, appropriate audit evidence, the auditor has concluded that the financial statements as a whole are not free from material misstatement
    - Pervasive
      - **Adverse**
        - The financial statements do not give a true and fair view
    - Not pervasive
      - **Qualified**
        - Except for the effects of a specific matter or matters, the financial statements give a true and fair view

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