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# AUASB Bulletin

## Auditor's considerations in times of changing and uncertain economic conditions

ISSUED BY  
AUDITING AND ASSURANCE STANDARDS BOARD



Australian Government  
Auditing and Assurance Standards Board

# About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

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The views expressed in this publication are those of the author(s) and those views may not necessarily coincide with the views of the Auditing and Assurance Standards Board. Any errors or omissions remain the responsibility of the principal authors.

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## Introduction and purpose


Preparers and auditors of financial reports are facing a challenging 30 June 2022 reporting period arising from the impact of topical and emerging risks, and the changing and uncertain economic conditions. Some matters which may impact financial reports at 30 June 2022 are:

- Climate related and other sustainability risks.
- Cybersecurity risks.
- The Ukraine-Russia conflict and international sanctions.
- Rising inflation, interest rates, energy prices, wages and other expenses.
- Energy supply issues.
- Global and local disruption to supply chains.
- Labour shortages impacting the availability of appropriately skilled staff.
- The ongoing COVID-19 pandemic and restrictions in some jurisdictions.
- The discontinuation of financial and other support previously provided to assist with the impact of COVID-19.

[ASIC's Areas of Focus for 30 June 2022](#) highlights key focus areas for companies to consider in preparation of their upcoming financial report and annual reporting including the Operating and Financial Review (OFR).

This AUASB Bulletin complements [ASIC's Areas of Focus for 30 June 2022](#) and highlights how relevant Auditing Standards and existing guidance supports auditors to perform a high-quality audit in the current economic and external environment.

The Bulletin includes references to various AUASB pronouncements and guidance that have been issued recently, as well as guidance issued by other standard setters and regulators that may assist auditors navigate through the risks they face when performing engagements during this reporting period.



This bulletin complements [ASIC's Areas of Focus for 30 June 2022](#) and highlights how relevant Auditing Standards and existing guidance supports auditors.

## Topical and emerging risks

### Climate related and other sustainability risks

There is increasing expectation and demand from investors and other stakeholders for entities to disclose the impact of climate-related and other sustainability risks. Depending on the entity and the risks, disclosures may be required in the financial report and / or the Annual Report including the OFR and the corporate governance statement. Disclosures made in other documents will not compensate for disclosures that should be in the financial report, and therefore subject to audit.

The AASB and AUASB Joint publication [Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB / IASB Practice Statement 2](#) provides an

overview for preparers and auditors, and the consideration of materiality<sup>1</sup> when assessing the impact on the financial report.

Auditors should consider climate-related and other sustainability risks when performing their risk assessment and applying ASA 315<sup>2</sup>. If a risk of material misstatement is identified the auditor responds to this risk by applying ASA 330<sup>3</sup>, including assessing the impact on amounts recognised in the financial report and relevant disclosures.

If entities have determined climate-related and other sustainability risks do not have an impact on the financial report including disclosures, they still need to consider if disclosures in the OFR are necessary. If climate-related and other sustainability risks could have a material impact on the future prospects of the entity this should be disclosed in the OFR. Auditors should refer to ASIC's [RG 247 Effective disclosure in an operating and financial review](#) for guidance.

Auditors are also reminded of their responsibilities under ASA 720<sup>4</sup> to read the Annual Report and consider whether there are any material inconsistencies with the financial report, and the auditor's knowledge obtained during the audit. This is important in ensuring there is consistency and connectivity between disclosures and assumptions made in the financial report, and the OFR. This responsibility is also relevant to other disclosures elsewhere in the Annual Report.

Also refer to the following publications by ASIC which also support disclosure of climate related risks [Managing climate risk for directors](#) and [ASIC Report 593: Climate risk disclosure by Australia's listed companies](#)

## Cyber security risks

The prominence of cybercrime means that cyber security is a key business risk for many entities to consider and manage. ASIC has published [cyber resilience including good practice guides](#) and [key cyber questions for an organisation's board of directors](#), to assist management and those charged with governance (TCWG).

For entities whose operations could be significantly impacted, it is important for management and TCWG to consider the risks related to cyber security and if a cyber security event occurs, whether is it quantitatively or qualitatively material and the implications for the financial report. [AASB / IASB Practice Statement 2](#) provides entities with guidance on making materiality judgements when preparing their financial report.

Auditors should consider cyber security risks when performing risk assessment and applying ASA 315. If a risk of material misstatement is identified the auditor responds to this risk by applying ASA 330, including assessing the impact on amounts

Refer to the AASB and AUASB Joint publication [Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB / IASB Practice Statement 2](#) which provides an overview for preparers and auditors, when assessing the impact on the financial report.

Refer to the [AUASB Bulletin The Consideration of Cyber Security Risks in an Audit of a Financial Report](#) for guidance on how to assess the risk of material misstatement and then how to respond to any identified risks.

<sup>1</sup> [AASB/IASB Practice Statement 2 Making Materiality Judgements \(APS/PS 2\)](#).

<sup>2</sup> [ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment](#)

<sup>3</sup> [ASA 330 The Auditor's Responses to Assessed Risks](#)

<sup>4</sup> [ASA 720 The Auditor's Responsibility Relating to Other Information](#)

recognised in the financial report and relevant disclosures. [AUASB Bulletin The Consideration of Cyber Security Risks in an Audit of a Financial Report](#) assists auditors in considering the direct and indirect impact of cyber security on the audit. Depending on the facts and circumstances of an entity, cyber security may contribute to the susceptibility to misstatement of certain amounts and disclosures in an entity's financial report.

If entities have determined cyber security risks do not have a material impact on the financial report, they need to consider if disclosures in the OFR are necessary. If cyber security risks could have a material impact on the future prospects of the entity this should be disclosed in the OFR. Auditors should refer to ASIC's [RG 247 Effective disclosure in an operating and financial review](#) for guidance.

Auditors are also reminded of their responsibilities under ASA 720<sup>5</sup> to read the Annual Report and consider whether there are any material inconsistencies with the financial report, and the auditor's knowledge obtained during the audit. This is important in ensuring there is consistency and connectivity between disclosures and assumptions made in the financial report, and the OFR. This responsibility is also relevant to other disclosures elsewhere in the Annual Report.

## Impact of Russia / Ukraine conflict

When auditing entities with operations or assets in Russia and / or Ukraine there may be challenges in obtaining sufficient appropriate audit evidence due to sanctions and other restrictions. If an entity has material operations or assets in Russia and / or Ukraine this may also impact the risk in relation to going concern. The conflict may also result in other risks to entities such as supply chain issues, recoverability of receivables etc.

[ICAEW War in Ukraine: the auditing implications](#) provides detailed guidance for auditors on the matters to consider.

# Changing and uncertain economic conditions

## Communicating with TCWG

TCWG are responsible for overseeing the financial reporting process and thereby reducing the risks of material misstatement of the financial report. TCWG are also responsible for recognising and managing risk. ASA 260<sup>6</sup> explains that timely communication throughout the audit and robust two-way dialogue between the auditor and TCWG is important in both parties fulfilling their roles.

Effective communication between auditors and TCWG on the planned scope of the audit, significant risks identified, and the significant findings from the audit, provides an opportunity for both parties to be satisfied that all relevant matters have been addressed thereby reducing the risks of material misstatement. If significant matters are identified, timely communication may provide TCWG an opportunity to provide further



Timely communication throughout the audit, and robust two-way dialogue between the auditor and TCWG is important in both parties fulfilling their roles.

<sup>5</sup> [ASA 720 The Auditor's Responsibility Relating to Other Information](#)

<sup>6</sup> [ASA 260 Communication with Those Charged With Governance](#)

information, consider if any actions are necessary, and to consider if new or enhanced disclosures are required in the financial report.

Therefore, communication between auditors and TCWG is critically important to ensure the impact of the changing and uncertain economic conditions is assessed and disclosed appropriately.

## Risk assessment


The foundation of a high-quality audit is a robust risk assessment process which is updated continually throughout the audit as new information is obtained and / or circumstances change. This is especially important in the current environment as the economic conditions and external factors are continually changing.

The AUASB's revised version of ASA 315<sup>7</sup> (not yet effective) provides an enhanced risk assessment process and is particularly useful in considering the current uncertainty when identifying and assessing the risks of material misstatement. The following aspects are particularly relevant in times of changing and uncertain economic conditions:

- Enhanced understanding of the entity and its environment, including its business model.
- Consideration of inherent risk factors (which include complexity, change and uncertainty) in identifying and assessing risks of misstatement. The inherent risk factors are particularly relevant in the current environment and will assist auditors considering the impact on their client and risks.
- The separate identification and assessment of inherent and control risk.

Consistent with [ASIC's Areas of Focus for 30 June 2022](#), auditors should pay particular attention to the following areas which may be impacted by the current uncertainty:

- Asset values
- Provisions (including loans)
- Going Concern
- Subsequent events
- Relevant disclosures in the financial report



Refer to ASA 315 implementation support available on the [AUASB website](#).

## Accounting estimates

ASA 540<sup>8</sup> provides a risk-based approach to auditing accounting estimates and emphasises the importance of professional scepticism. ASA 540 includes inherent risk factors including complexity, subjectivity and estimation uncertainty, which will assist auditors in focusing on the effect of impact of the current uncertainty. The current uncertainty may increase the degree of estimation uncertainty associated with some accounting estimates and related disclosures, which in turn increases the risk of material misstatement.

Auditors are reminded that estimates based on forward-looking information may carry significant estimation uncertainty, for example:

- Impairment of non-financial assets under AASB 136 *Impairment of Assets*

<sup>7</sup> [ASA 315 Identifying and Assessing the Risks of Material Misstatement](#) is effective for reporting periods commencing on or after 15 December 2021

<sup>8</sup> [ASA 540 Auditing Accounting Estimates and Related Disclosures](#) is effective for reporting periods commencing on or after 15 December 2019



- Impairment of inventories under AASB 102 *Inventories*.
- Impairment of financial assets under AASB 9 *Financial Instruments*.
- Financial assets that are in the scope of AASB 9's expected credit loss model (ECL) including loans; trade and other receivables; debt instruments not measured at fair value through profit or loss; contract assets lease receivables; financial guarantees; and loan commitments.
- Fair value measurements under AASB 13 *Fair Value Measurement*.
- Assessments of the entity's ability to continue as a going concern under AASB 101.

Refer to ASA 540 implementation support available on the [AUASB website](#), and [COVID-19 FAQs](#) which specifically addressed considerable uncertainty in accounting estimates.

Refer to [ASIC's Areas of Focus for 30 June 2022](#) for further details on how accounting estimates may be impacted. This also highlights the importance of disclosures on key judgements on accounting estimates and forward-looking information.

Auditors should refer to the [AUASB website](#) for comprehensive guidance on ASA 540 including illustrative examples of simple and complex accounting estimates and expected credit loss accounting estimates. Also, the AUASB issued extensive [COVID-19 FAQs](#) which addressed how considerable uncertainty may impact accounting estimates. These concepts and matters to consider are relevant for any events creating uncertainty.

## Going Concern considerations

The changing economic conditions may increase the risk relating to going concern and insolvency.

When conducting risk assessment procedures auditors consider the business impacts of the current economic conditions and whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If events are identified ASA 570<sup>9</sup> includes further requirements for auditors including assessing whether going concern matters are adequately disclosed in the financial report.

The AASB and AUASB joint publication [The Impact of COVID-19 on Going Concern and Related Assessments](#) provides an overview of the financial reporting and auditing responsibilities for going concern and solvency assessments, and is relevant and helpful when there is an increased risk.

Refer to AASB and AUASB joint publication [The impact of COVID-19 on Going Concern and Related Assessments](#).

Another factor to consider is the discontinuation of financial and other support government, lenders and lessors provided in response to COVID-19. [AUASB Research Report 4 COVID-19 Snapshot of Auditor Reporting in Australia](#) presents a snapshot and analysis of auditor reporting over the June 2019 and 2020 reporting seasons (i.e. pre and during COVID-19), with one of the focus areas being the impact on going concern reporting by auditors. This research found that there was a reduction in the reporting of both modified audit opinions and material uncertainties related to going concern in 2020 compared to 2019 which was unexpected. One possible reason for this is the financial and other support government, lenders and lessors

<sup>9</sup> [ASA 570 Going Concern](#)



provided had the desired effect of keeping entities operating. Therefore, the “true” impacts of the COVID-19 pandemic may be felt by entities in coming reporting periods.

## Key audit matters

If communicating key audit matters (KAMs), auditors consider if items identified as KAMs have changed due to changing economic and external environment (i.e. new KAMs), and / or why a previously identified matter is still a KAM, as well as the impact on how they have addressed the KAM.

[AUASB Research Report 4 COVID-19 Snapshot of Auditor Reporting in Australia](#) also covered the impact of COVID-19 on reporting of KAMs. This research found that a significant proportion of the KAMs reported in 2020 included reference to COVID-19 and how it affected the KAM (for example the impact of COVID-19 on asset values).

## Subsequent events

Auditors should be alert to events occurring after year-end and before completing the financial report and whether they affect assets, liabilities, income or expenses at year-end or relate to new conditions requiring disclosure. This is especially important in the current environment as the economic conditions and external factors are continually changing.

## Labour shortages

Labour shortages may impact audits in the following ways:

- Client’s labour shortages which may impact the performance of their business as well as the effectiveness and operation of the systems of internal controls.
- Availability of personnel with appropriate skills and competence to perform high quality audit and assurance engagements.

Auditors consider the impact on their client and whether this raises a risk of material misstatement as well as a need to modify the planned audit approach due to an inability to rely on internal controls. Auditors also consider their responsibilities under ASQC 1<sup>10</sup> and ASA 220<sup>11</sup> in relation to ensuring the engagement team have the appropriate skills and competence and the engagement partner is sufficiently and appropriately involved in the engagement including directing, supervising and reviewing.

## Future initiatives

The AUASB will continue to engage with ASIC and other regulators, standard setters, auditors and other stakeholders to identify further initiatives which may assist practitioners address current and topical issues like those described in this AUASB Bulletin. If you have any comments on this topic or would like to raise an area for further consideration by the AUASB, please contact us at [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au).

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<sup>10</sup> [ASQC 1 Quality Control for Firms that Perform Audits](#)

<sup>11</sup> [ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information](#)