

## 1 John Selwood's Brexit Q&A (Lecture A671 – 13.49 minutes)

### QUESTION

I was reading recently that auditors are starting to include wording in their auditor's reports that distances the auditors from Brexit-related issues.

Should auditor's reports be including a standard paragraph to limit the auditor's liability and where can I get further guidance?

### ANSWER

At the risk of appearing to go against a current trend, it is my view that auditor's reports should not include any sort of boilerplate wording disclaiming the auditor's responsibility for Brexit-related issues. This is not to say that Brexit will not have an impact on the auditor's report; it may do, but its effect will vary from one audit to another.

However, the reality is that more than a few auditor's reports for the December 2018 reporting season include paragraphs that mention Brexit. The issues this raises are complicated, opinions are divided, the stakes are high and it is not clear how to proceed – just like Brexit itself.

I could begin my answer to your question with a commentary on how auditors have already approached this issue, but I think that this would be unhelpful. It is much more useful to constructively examine how Brexit might be addressed in the audit report. In my opinion, Brexit might affect auditors' reporting in the following ways:

#### **Boilerplate on Brexit**

I think that the use of a standard boilerplate paragraph on Brexit should be avoided, as do the Financial Reporting Council and ICAEW (see box). Also, the scope of the audit and Bannerman paragraphs already make clear the extent of the auditor's involvement and responsibilities.

#### **Key Audit Matters**

This will mostly affect listed company audits. Matters arising from Brexit may qualify. In my view, it seems thoroughly appropriate to set out the issues facing the company here, together with the auditor's approach, where relevant.

#### **Emphasis of matter**

Where they are fundamental to users' understanding of the financial statements, auditors should draw attention to significant, but properly disclosed, uncertainties in an emphasis of matter (EoM) paragraph. However, as set out in ICAEW's guidance *Audit and Brexit Part 3: Auditing standards considerations* (see box), auditors should remember that "the 'fundamental' (to users' understanding) test is a high hurdle."

**Material uncertainty relating to going concern**

It is possible that, for certain companies, Brexit might create material uncertainties that cast significant doubt on the company's ability to continue as a going concern. This material uncertainty relating to going concern (MURGC) is not the same as the EoM above, as that EoM does not create material uncertainties that cast significant doubt relating to going concern.

An EoM or MURGC is only relevant where the auditor has obtained all the necessary audit evidence and the relevant disclosure in the financial statements shows a true and fair view. If this is not the case, then a modified opinion is required.

**Modified opinion - disagreement**

If Brexit-related issues and uncertainties are not properly disclosed then a modified opinion might be necessary.

**Other matter paragraph**

'Other matter' paragraphs in the auditor's report cover matters "other than those that are presented or disclosed in the financial statements that, in the auditor's judgement, are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report."

It seems unlikely to me that such matters would not be disclosed in the financial statements, in compliance with relevant narrative reporting requirements or accounting standards. There might be circumstances where Brexit would require an 'other matter paragraph' but those circumstances, in my view, are so rare that I am struggling to think of a relevant example of them.

**Conclusion**

In short, there is no 'one size fits all' auditor's report relating to Brexit – and no simple answer to your question.

The uncertainties relating to Brexit are usually going to affect the narrative reporting for most companies and sometimes this will have implications for the auditor's report. But the reporting will vary from audit to audit.

The continued uncertainty over when, how or if Brexit might occur means that this issue is not going to go away for some time.