



Guidance on Audit Practices during the Coronavirus Crisis

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Foreword from Technical Department

We are in the midst of a crisis that none of us expected or were properly prepared for. The coronavirus (COVID-10) pandemic and its consequences have a significant impact on our daily lives, the economy and also on the accounting & auditing industry.

Apart from the usual risk assessment procedures, auditors will have to specifically consider the impact of the coronavirus on the financial statements and the appropriateness of the going concern principle used in the preparation of financial statements. Another important factor to address is the selection of alternative procedures where the auditor cannot apply "observation" as an audit procedure due to not being able to visit client premises. We also have to consider the consequences on the auditor's communication and reporting obligations.

This guidance is aimed to serve as a practical guide when performing audits during this crisis time where we are subject to certain limitations in terms of movement and contact with our clients. This also raises the need to consider a continuity plan regarding current and future audit engagements.

The Technical Department will continue to support our audit teams to carry out their responsibilities as best as possible under the current circumstances and we will address any issues resulting from this situation by continuously updating guidance.

Technical Department



1. Summary

The global developments relating to the COVID-19 pandemic will have an impact on the audit process and how audits will be performed currently and in the near future. Additional risks that are created because of the current situation may not have been considered when planning audits or already identified risks may now have become significant risks. We therefore have to consider these risks as well as our response to address the new or revised risks. Other challenges, such as how to obtain sufficient appropriate audit evidence on which to base our audit opinion; determining if there are alternative procedures to perform to obtain audit evidence; how to meet our communication and reporting responsibilities and how to comply with quality control policies and procedures, are only some of the things we need to address.

Below is an illustration of matters for consideration:



2. Impact on Auditor's Planning and Risk Assessment Process

We may need to reassess the risks of material misstatement of the financial statements, as the information on which the initial risk assessment was based may have changed. For audits in progress, we should evaluate the impact and may need to revise their risk assessments and modify further planned audit procedures in accordance with ISA 315 (Revised).

Points for consideration:

- **Any new risk(s) to be identified that was not assessed during the planning phase.**
- **Any risk assessed during the planning phase that now becomes a significant risk; and any additional work effort required to address the significant risk.**
- **Modify the responses to these risks.**
- **Consider impact of new and revised risks on determination of materiality.**

New risks identified because of COVID-19

Consider the impact on the planned audit approach of new or revised risks that have arisen because of COVID-19. Consideration should be given to the following potential new risks affecting the entity:

- Interruptions of production
- Supply chain disruptions
- Unavailability of personnel
- Reductions in sales, earnings, or productivity
- Closure of facilities and stores
- Delays in planned business expansions
- Inability to raise financing
- Increased volatility in the value of financial instruments
- Reduced tourism, disruptions in nonessential travel and sports, cultural and other leisure activities.

The risks listed above are only a few examples and the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets should also be considered.

Revision of initial risk assessment

We should consider the implications of COVID-19 when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks. Discussions should be held with those charged with governance (TCWG) and management whether the impact of the COVID-19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the business risks arising.



Where audits are already in progress the impact of the coronavirus on the **initial audit risk assessment** should be considered to determine whether the risk assessment needs to be revised because of the threat of possibly new significant risks.

The following are examples of areas that may require a reassessment of the initial risk assessment at financial statement level:

Area		What to consider?
Management's risk assessment	⇒	Did management incorporate the impact of the COVID-19 into their risk assessment processes?
	⇒	How did management identify and assess the significance of the business risks that may have arisen?
	⇒	Where management determined that there is no material impact on the entity, is this conclusion reasonable?
Integrity of management	⇒	What is the possibility that the circumstances may cause management not to act in the best interest of the entity?
Liquidity of entity	⇒	Consider current and future liquidity of entity since the information on which the initial risk assessment was based may have changed.
	⇒	How strong is the entity's cash flow?
Debt obligations	⇒	Will the entity be able to meet its debt obligations?
Market share	⇒	What is the impact on the entity's current market share?
	⇒	What is the impact on the share price?
Personnel	⇒	Were any key staff laid off as a result of the situation?
	⇒	Were key personnel unusually distracted during this time? What is the impact of this?
	⇒	Impact of financial hardship to commit fraud/theft?
Other obligations	⇒	Will the entity be able to meet its legal and reporting obligations?
	⇒	Will the entity be able to pay its tax obligations?
Pressures	⇒	What is the impact in respect of pricing or competitive pressures?
	⇒	Was there a decline in the demand for products and services? What was the impact thereof?
	⇒	Does the entity still have its usual suppliers and can the suppliers meet needs of the entity?
	⇒	What is the impact where the entity has trading relationships of components in affected countries or areas?



The following are examples of aspects to consider when performing a reassessment of the initial risk assessment at assertion level:

Area		What to consider?
Assets	⇒	What is the impact on management's assessment of useful lives and residual values of assets (valuation)?
	⇒	Are the estimates of future cash flows and earnings affected by the event (valuation)?
	⇒	What is the impact on management's process for testing impairment (valuation)?
	⇒	Are the fair value measurements used to value assets and investment properties reasonable under the circumstances (valuation)?
Inventory	⇒	Will the entity be able to perform an inventory count (existence)?
	⇒	What is the impact of temporary shutdowns on the costing of inventories (valuation)?
	⇒	How is the measurement of inventories (lower of cost and NRV) impacted (valuation)?
	⇒	Consider impact on obsolescence of inventory items (valuation).
Investments	⇒	How does this affect management's considerations of possible impairment of investments (valuation)?
	⇒	Are the fair value measurements used to value investments reasonable under the circumstances (valuation)?
Non-current assets held for sale	⇒	What is the probability that the intention for selling non-current assets will continue as planned within the next 12 months?
Receivables and loans	⇒	How does this affect the recoverability of loans and receivables (valuation)?
	⇒	Is the assessment of expected credit losses still based on reasonable and supportable information (accuracy)?
	⇒	Is the allowance and/or reserve balances still reasonable? <i>For instance, the company could have large accounts receivable amounts from a certain customer who may have incurred severe impact on their business due to COVID-19, causing an inability to pay and thus necessitating an increase in the allowance for doubtful accounts.</i>



Area	What to consider?
Loans and other payables	⇒ Would the entity be able to pay its suppliers and creditors?
	⇒ Consider the possibility of breaches of loan covenants and impact thereof. Some loans may become payable on demand.
	⇒ What is the impact on the classification of liabilities as current vs non-current (classification)?
Financial instruments	⇒ Are expected transactions no longer highly probable or likely to occur? Consider impact on derivatives and hedging accounting requirements.
	⇒ Assess derivatives and hedging – forecasted purchases and sales and hedging of these activities may be impacted. <i>These factors should be taken into consideration in the valuation of the contracts, and may cause problems from a hedge accounting standpoint as forecasted transactions are no longer probable of occurring. There may be legal questions on whether force majeure clauses are tripped.</i>
Provisions and employee benefits	⇒ Are the existing provisions sufficient taking into account the changed circumstances (valuation)?
	⇒ Are there any provisions or benefits that should be created for obligations that may arise because of the circumstances (completeness)? For example: <ul style="list-style-type: none"> ▪ Employment termination benefits ▪ Additional leave pay-outs ▪ Extension of warranties ▪ Penalties for late or non-delivery of goods and services ▪ Insurance claims
	⇒ Consider whether there is a legal or constructive obligation to its employees in connection with the virus, for example sick pay or payments to employees that self-isolate, for which a liability should be recognised.
Share-based payments	⇒ Consider the likelihood that performance conditions will be met. To the extent that such changes are beneficial to the employee, they would be accounted for as a modification and an additional expense must be recognised.
Revenue	⇒ Consider impact on meeting performance obligations for recognition of revenue.
	⇒ For variable considerations, consider whether the entitlement is dependent on the occurrence or non-occurrence of a future event (occurrence).
	⇒ Consider ability of customer to provide the consideration for the good or service. Revenue is recognised only when it is probable that the customer will pay the transaction price when it is due net of any price concession.

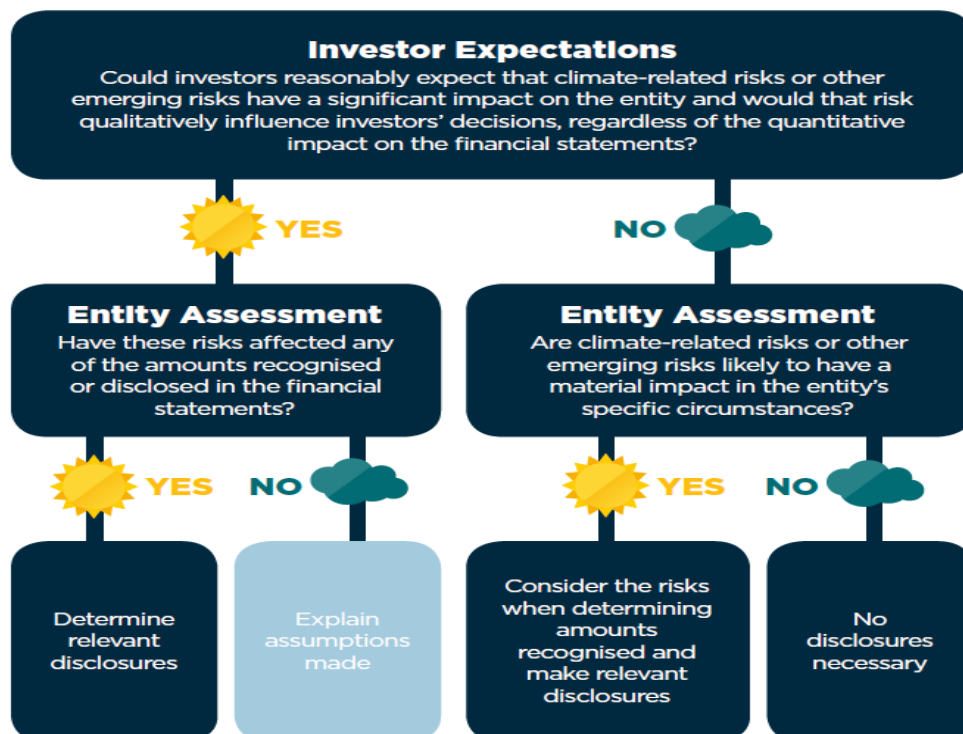


Area	What to consider?
Contingent assets and liabilities	⇒ Should contingencies be created for any potential claims or fines arising from the situation?
	⇒ Consider the impact of breaches of covenants, onerous contracts.
	⇒ Consider whether the losses arising from COVID-19 are covered by insurance policies.
	⇒ What is the impact of contingent considerations in contractual agreements?
Taxes	⇒ Consider impact on recoverability of deferred tax assets.
	⇒ Consider the effect of asset impairments on deferred tax liabilities.

Re-assessment of Materiality

Where it was necessary to have revised the risk assessment as a result of the COVID-19 event, the audit materiality may also need to be revised as the audit progresses. It is also important to consider the qualitative aspects of materiality and the impact thereof on the financial statements.

The guidance in ISA 320 *Materiality in Planning and Performing an Audit* must be followed.



3. Obtaining audit evidence

We must should consider how to gather sufficient appropriate audit evidence. Given increasingly restricted travel, changed working arrangements, no face-to-face meetings and inability to access company sites, we need to develop alternative audit procedures to gather sufficient appropriate audit evidence.

Points for consideration:

- **Observe some physical inventory counts on an alternative date, if the attendance of physical counting cannot be performed at the year-end date; or perform alternative audit procedures where attendance of physical inventory counts is impracticable. Refer to ISA 501 *Audit Evidence – Specific Considerations for Selected Items*.**
- **Consider performing alternative audit procedures when there is significant delay in receiving audit confirmations. Refer to ISA 505 *External Confirmations*.**
- **Consider any scope limitation that may lead to a modified audit opinion in terms of ISA 705 *Modifications to the Opinion in the Independent Auditor's Report*.**
- **Communicate with management and those charged with governance, on a timely basis, with respect to significant matters, such as difficulties encountered during the audit, potential delays in the auditor's reporting and expected modifications to the auditor's report.**
- **Consider the following when auditing accounting estimates:**
 - **What information about the outbreak was known by market participants at the reporting date that would have impacted the fair value measurement of assets and liabilities as well as the financial disclosures?**
 - **What is the impact of the outbreak on the entity's measurement of Expected Credit Losses (ECLs) as well as the qualitative and quantitative disclosures to enable users of the financial statements to understand the effect of the credit risk on the amount, timing and uncertainty of future cash flows?**
 - **Whether the COVID-19 outbreak is an impairment indicator at the reporting date, which results in an impairment assessment; and whether the disclosures in the financial statements sufficiently provide the users of the financial statements with details on the significant assumptions made by management.**

Re-visit the approach to the audit and where the engagement team can not physically visit a site, think of creative ways to still gain sufficient audit coverage. Our planning should also include making greater use of technology in sharing data or having virtual meeting and interviews. Consideration should be given to how data analysis may be performed utilizing centralized source systems to execute the audit without the need for a traditional site visit. Where reliance is placed on controls, consider whether the entity has video surveillance and whether we would be able to use those feeds to check whether critical physical controls are still working.



Testing of Inventory without a Site Visit

ISA 501 requires auditors to attend inventory counts where inventory is material, unless impractical, to provide audit evidence relating to existence and condition. Alternative procedures are otherwise required, and where a count is conducted at a date other than the year end, additional procedures are required to cover the intervening period. Due to movement and travel restrictions it may not be possible to rely on physical attendance at inventory counts to verify existence and condition of inventory items.

If attendance at physical inventory counting is impracticable, we must perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. Realistic and appropriate alternative audit procedures will depend on the specific circumstances of the audited entity and each entity will need to be considered on a case-by-case basis. The starting point will be to discuss the position with the management of each audited entity.

The following alternative procedures can be considered to identify if it can be applied to the specific entity:

Alternative procedures	Details	Inherent weaknesses and challenges
Virtual attendance	<p>If the audited entity intends to perform a full stocktake, we may be able to attend virtually, for example using video call facilities. If it is possible to use such technology, the following must be considered:</p> <ul style="list-style-type: none"> Who will be controlling the device(s), and how and where are the cameras directed? How will you obtain evidence regarding completeness? Do cameras allow you to see all of the inventory at any point in time? Can the condition of the inventory be assessed? How will you select samples for testing, and will you increase their size to reflect the increased risk? If communicated prior to the count, this could allow for manipulation. Unpredictability, and only selecting on the call items to be counted, 	<ul style="list-style-type: none"> Where we are not in control, there is a risk that the video footage may be manipulated. There is a risk that things are hidden out of frame or that items are moved in and out of frame. If videos lack resolution, you may not be able to see indications of damage. Video footage may not be appropriate for assessing the condition of all inventory. <p>Additional procedures to mitigate the increased risk might include increasing sample sizes and following up on items tested at a later date.</p> <p>It is important to document the impracticability and unreasonableness of observing the count in person, given the Covid-19 situation. It may be</p>



Alternative procedures	Details	Inherent weaknesses and challenges
	<p>from both floor to sheet, and sheet to floor, will help to reduce this risk.</p> <ul style="list-style-type: none"> Do you need to adjust your sample sizes, given these issues? How experienced are your staff who are involved with the count? Given the technology limitations, you will likely want to use staff with prior experience of inventory counts. You may also find it helpful to have more than one member of staff involved. 	useful to also confirm the GPS coordinates of the location of the count at the beginning of the count.
Attending a stocktake at an alternative date (Roll back)	Make or observe some physical counts on an alternative date and perform audit procedures on intervening transactions. This may involve attending a stocktake at a future date with a roll-back to the balance sheet date, or, if an interim stocktake was attended, it may be possible to use those results and roll-forward to the balance sheet date.	Roll back procedures may be difficult and time-consuming where subsequent transactions are extensive.
Rely on cycle counting (Roll forward)	A cycle count procedure is where the client essentially has controls in place where on a periodic basis (ie quarterly) they will conduct their own test counts of just a portion of their inventory, going back to their perpetual system and prepare the counts, make corrections, etc. Where we can rely on those controls (controls-based approach) to establish the existence of inventory, we may be able to go back to the last prior cycle count that was taken and then be able to roll forward to year end (using sales transactions and purchase transactions and testing those during that interim period).	Controls testing must be performed and be effective.
Inventory price-testing	Confirming the quantity in the inventory, the price at which it was purchased, and what the cost was.	This procedure is usually performed to test the valuation assertion. It is therefore crucial to properly document how the test was performed and results to indicate what was done to also test the existence assertion.



Alternative procedures	Details	Inherent weaknesses and challenges
		Some roll-forward or roll-back procedures may also be required.
Stock held by a third party	Placing some reliance on confirmation received from that third party regarding the quantities and condition of the inventory.	Professional scepticism may require a careful evaluation of confirmations provided by third parties who have not attended stock counts, and any changes to the wording usually provided in such confirmations.
Relying on work of internal auditors	When considering relying on internal auditors, you should consider the following: <ul style="list-style-type: none"> Are there any threats to the independence of the internal auditors, actual or perceived? Are the internal auditors competent to do this work? It is possible that staff absences will reduce their resources? How systematic and disciplined has their work been in the past? 	Proper communication with internal audit to communicate expectations and expected sample sizes.

The implications for the auditor's report of an inability to attend a stock count will depend on the audit evidence obtained. You should consider whether alternative procedures have fulfilled the requirements of ISA 501 and in particular whether sufficient appropriate evidence has been obtained. If, despite using alternative procedures, the requirements of ISA 501 are not met, you will need to modify the audit opinion under ISA 705. Where alternative audit procedures are performed and the procedures provide sufficient appropriate audit evidence to conclude that inventory is free from material error, the auditor's report will not need to be qualified in respect of stock.

However, if it is not possible to perform alternative audit procedures to obtain sufficient appropriate audit evidence in relation to a material inventory balance, we must modify the opinion in the auditor's report. In many cases, this will result in a qualified audit opinion due to a limitation of scope, where the stock balance is material but not pervasive.

In some cases, a disclaimer of the audit opinion may be necessary if the inability to obtain sufficient appropriate audit evidence means that the possible effects on the financial statements of undetected misstatements (if any) on the financial statements could be both material and pervasive. As under normal circumstances, it seems likely that qualifications arising from a limitation of scope of the audit are more likely to be issued than disclaimers of opinion.



Testing of Accounting Estimates

When auditing accounting estimates, greater focus will be required on the following:

- Changes to regulatory factors that may affect accounting estimates (e.g., initiatives aimed at sustainable solutions for temporarily distressed debtors in the context of the outbreak).
- Whether assumptions are appropriate in the circumstances and in the context of the applicable financial reporting framework (e.g., cash flow forecasts, discount rates, etc.).
- Whether data being used by the entity is relevant and reliable.
- The effect of changing inherent risk factors, in particular uncertainty.

Points for consideration:

- **Auditors may consider what information about the outbreak was known by market participants at the reporting date that would have impacted the fair value measurement of assets and liabilities as well as the financial disclosures.**
- **Auditors may consider the impact of the outbreak on the entity's measurement of Expected Credit Losses (ECLs) as well as the qualitative and quantitative disclosures to enable users of the financial statements to understand the effect of the credit risk on the amount, timing and uncertainty of future cash flows.**
- **Auditors may consider whether the COVID-19 outbreak is an impairment indicator at the reporting date, which results in an impairment assessment; and whether the disclosures in the financial statements sufficiently provide the users of the financial statements with details on the significant assumptions made by management.**

Allowance for expected credit losses (ECL)

COVID-19 can impact the ability of borrowers, whether corporate or individuals, to meet their obligations under loan relationships. Individual and corporate borrowers may have a particular exposure to the economic impacts in their geography and industry sector. More broadly, reductions in forecasts in economic growth increase the probability of default across many borrowers and loss given default rates may increase due to the fall in value of collateral evident more generally by falls in prices of assets.

IFRS 9 requires that forward-looking information (including macro-economic information) is considered both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. Forward-looking information might include additional downside scenarios related to the spread of COVID-19. This might be achieved by adding one or more additional scenarios to the entity's existing scenarios, amending one or more of the existing scenarios (for example, to reflect a more severe downside(s) and/or to increase their weighting), or using an 'overlay' if the impact is not included in the entity's main expected credit loss model.

Assessment of significant increase in credit risk requires the assessment at each reporting date whether the credit risk of a financial instrument has increased significantly since its initial recognition



ECL applies to trade receivables, loans, debt securities, as well as the losses recognised in measuring loan commitments and financial guarantee contracts. Applying IFRS 9 Financial Instruments, an entity should measure ECL in a way that reflects -

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Consider the following:

- Whether the ECL is measured at a 12-month or lifetime ECL.
- Whether the credit risk (risk of default) has increased significantly.
- The effect of other detrimental developments for the economy on forward-looking adjustments for ECL measurement.
- Whether the amount and timing of the expected credit losses as well as the probability assigned thereto are based on reasonable and supportable information.
- The significant judgement involved in making these estimates.
- Sufficiency of disclosures on significant judgement and assumptions applied.

Non-financial assets

The financial performance of non-financial assets, including estimates of future cash flows and earnings, may be significantly affected by the direct or indirect impacts of recent and ongoing events.

IAS 36 Impairment of Assets requires entities to perform an impairment test (i.e., estimate the recoverable amount of the affected cash generating unit) at the end of each reporting period when there is any indication that the cash generating unit may be impaired.

Entities may need to assess whether the impact of COVID-19 has led to an asset impairment. Their financial performance, including estimates of future cash flows and earnings, may be significantly affected by the direct or indirect impacts of recent and ongoing events.

Indicators of impairment include (but are not limited to) significant changes with an adverse effect on the entity that have taken place during the period, or will take place in the near future in the:

- Market or economic environment in which the entity operates; and
- Extent to which, or the manner in which, an asset is used or is expected to be used (for example, an asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date)

These events, including for example a fall in an entity's share price such that market capitalisation is lower than carry value, are an indicator of impairment requiring that goodwill and indefinite lived intangible assets are tested outside of the annual cycle.



Consider the following:

- Whether COVID-19 and the measures taken to control it are likely to reduce future cash inflows or increase operating and other costs.
- Whether the assumptions and cash flow forecasts used to test for impairment should be updated to reflect the potential impact of COVID-19.
- The need to revise budgets, forecasts and other assumptions from an earlier impairment testing date that were used to determine the recoverable amount of an asset to reflect the economic conditions at the balance sheet date, specifically to address increased risk and uncertainty.
- The factors used to determine the discount rate, however the recoverable amount is determined, should be revised to reflect the impact of the virus and the measures taken to control it, for example the risk-free rate, country risk and asset risk. The discount rate used in a single predicted outcome approach should be adjusted to incorporate the risk associated with COVID-19. Management should ensure that appropriate risk is reflected in either the cash flows or the discount rate.
- Whether there were interruptions in the business or whether assets have not been used (idle).
- Whether the judgements made and assumptions applied are based on reasonable and supportable information
- Sufficiency of disclosures on significant judgement and assumptions applied.

Valuation and impairment of receivables, loans, and investments

Given the current downturn in financial markets in many areas, entities should consider the impacts of significant fluctuations in the value of investments and assess them for impairment. Investments that may be affected include equity securities and debt issued by entities that are domiciled in an affected area and, in certain instances, investments in sovereign debt.

Events in an affected area may cause additional volatility in the global markets, which may have an impact on the fair values of investments that are not directly linked to affected areas (e.g., credit spreads may widen or the creditworthiness of counterparties may be affected).

An entity's selection of the applicable impairment model, as well as the related considerations for revaluation of receivables, loans, and investments, is based on the instruments' classification under the financial reporting framework.

Consider the following:

- The impact of the changes to the terms of any borrowing or loan agreement, perhaps because of actions taken by the local government or the renegotiation of terms between a borrower and a lender.
- Whether any loan have become payable on demand due to payment breaches.
- How fair-value measurement for unlisted equities might be affected by these developments.
- Whether changes in the market is likely to affect the investments.
- Whether the fair value measurement techniques used are appropriate under the circumstances.



- Whether fair value measurements reflect market participant views and market data at the measurement date under current market conditions.
- Whether there should be amendments in the assumptions used for the impairment testing.

Other financial instruments

The fair value of an asset or liability at the reporting date should be determined in accordance with the applicable IFRS standards. When fair value is based on an observable market price, the quoted price at the reporting date should be used. The fair value of an asset reflects a hypothetical exit transaction at the reporting date. Changes in market prices after the reporting date are therefore not reflected in asset valuation.

The volatility of prices on various markets has increased as a result of the spread of COVID-19. This affects the fair value measurement either:

- directly, if fair value is determined based on market prices (for example, in case of shares or debt securities traded on an active market), or
- indirectly (for example, if a valuation technique is based on inputs that are derived from volatile markets).

Counterparty credit risk and the credit spread that is used to determine fair value might also increase. However, the impact of actions taken by governments to stimulate the economy might reduce risk free interest rates.

In addition to considering the impact of the virus on its expected credit losses and the measurement of financial instruments at fair value, the following should also be considered:

- the impact of the changes to the terms of any borrowing or loan agreement, perhaps because of actions taken by the local government or the renegotiation of terms between a borrower and a lender. Both parties should apply the guidance in IFRS 9 to determine the impact of the change in terms including those for determining whether the change to the terms results in derecognition and, if not, for recognising a modification gain or loss; and
- whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting is discontinued.

Consider the following:

- Whether the entity continues to meet the criteria for hedge accounting.
- Whether the impact of the event triggers an event of default under any financing arrangements.
- Whether expected transactions are still highly probable or likely to occur.
- Whether changes are necessary in respect of forecasted transactions.
- Whether fair value measurements reflect market participant views and market data at the measurement date under current market conditions



Valuation of inventories

Inventories are measured at the lower of their cost and net realisable value (NRV). In a difficult economic environment, the NRV calculation may warrant additional challenge and scrutiny at the reporting date.

Also, if an entity's production level is abnormally low (for example, as a result of temporary shutdown of the production lines), it may need to review its costing of inventories to ensure that unallocated fixed overheads are recognised in profit or loss in the period in which they are incurred.

Consider the following:

- Whether there is reduced or idle capacity and the impact on production levels.
- Whether reduced production might affect the extent to which overheads can be included in the cost of inventory.
- Whether it may be necessary to write-down inventories to net realisable value. These write-downs could be due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales.
- Whether inventory items may have become obsolescent due to temporary closure of business and not being able to trade.
- The significance of any write-downs and whether they require disclosure.



4. Group Audits

With the occurrence of an extraordinary event, such as an outbreak of a contagious virus or a natural disaster which restricts travel, group engagement teams with significant components in overseas locations may face challenges in gaining access to review the component auditors' work papers.

As a group auditor we need to consider how the COVID-19 including travel bans may affect risk assessments, materiality and the ability to obtain sufficient and appropriate audit evidence for components, associates or joint ventures. A reassessment of the group planned procedures in relation to the work of component auditors, such as the ability to appropriately review (or be involved in) the work of component auditors, i.e., whether alternative procedures need to be considered, may be appropriate.

Where we cannot obtain sufficient information in relation to subsidiaries, associates or joint ventures consider if this is material to the financial report as a whole and the impact on the audit opinion.

Points for consideration:

- **Communicate with component auditors as soon as practicable to discuss potential impacts arising from the COVID-19 outbreak.**
- **Consider any increased risk of material misstatement that financial information for those components may be inaccurate or incomplete due to the COVID-19 outbreak.**
- **Revise the risk assessment and modify the audit strategy and plan accordingly.**
- **Evaluate the adequacy of component auditors' work done and consider additional work or any scope limitation that may lead to a modified audit opinion.**
- **Communicate with management and those charged with governance, on a timely basis, with respect to significant matters, such as difficulties encountered during the audit, potential delays in the auditor's reporting and expected modifications to the auditor's report.**

Consider the following audit procedures:

Area	Procedures
Planning of group audits	<ul style="list-style-type: none"> ▪ Identify of audits of components in countries affected by coronavirus. ▪ Categorise the components between significant and non-significant. ▪ Obtain and understanding of the impact on the component: impact on the organisation and those charged with governance, senior management and key personnel for the audit as well as measures adopted by them or by those charged with governance and senior management of the group in order to ensure financial reporting continuity and component audit. ▪ Review the component's work plan status and options to perform the outstanding work.



Area	Procedures
	<ul style="list-style-type: none"> Assess and use review and supervision remote techniques (conference call, video calls) to gain remote access to working papers of the component, etc. Assess the possible delay in reporting deadlines of the component and of the auditor.
Identify impacted audits	December year-ends will need to be considered immediately, but should the restrictions continue, March 2020 year-ends are also likely to be affected.
Categorise audits	Review the impacted components and determine whether they are immaterial, material but not significant, or material and significant for the group opinion. This will allow to better understand the risk associated with each engagement.
Understand the impact on the component	<ul style="list-style-type: none"> Consider to what extent the component's ability to prepare necessary information has been affected. Workforce shortages due to illness or travel restrictions could limit management's ability to provide supporting evidence. The group auditor may wish to discuss with management how the business has been impacted, and how management intends to obtain the information they need for the purpose of the preparation of the group financial statements.
Review the status of work	<ul style="list-style-type: none"> Gain an understanding of what work has been performed to date, for example, as part of planning or interim audit work. Consider whether the ability to gather evidence has been affected, for example, bank closures may result in an inability to confirm cash balances. This may have implications for the ability of the group auditor to form an opinion on the group accounts.
Discuss amending reporting timescales	<ul style="list-style-type: none"> Where possible, a delay in the reporting timetable could allow for time for the spread of the virus to slow/stop, and for travel restrictions to be eased or lifted. The group auditor will need to understand whether the reporting timetable has been set due to regulatory or other deadlines, such as reporting on covenants. If it reflects company preference only, a delay should be encouraged to allow local management and auditors time to recover from the disruption resulting from the virus. Office closures make it likely that work will be behind schedule in terms of original reporting deadlines.
Consider alternative activities to demonstrate the review and evaluation of the component team where originally a visit by the group auditor was planned	<ul style="list-style-type: none"> Can data be shared cross-border, to allow for group auditor review? Could files be loaded into a cloud-based portal and a login provided to the group auditor? Local laws may restrict this cross-border data sharing. If in doubt, advice should be sought on any local legal restrictions.



Area	Procedures
	<ul style="list-style-type: none"> Can video calls and/or screen sharing software be used to talk through the work with the component auditor? Can the component auditor be asked to complete a detailed questionnaire or clearance on the work they have performed? Consider the outcome of any prior visits, including visits during planning or at an interim stage – what work was previously reviewed? Consider the past work of the component auditor – have there been significant errors or issues, or has work been to a high standard? Can a more detailed memorandum be provided to the component auditor on what work should be done for group reporting? What work can be done centrally by the group audit team? If finance systems are integrated, data may be accessible for group auditor review. Management may be able to provide information directly to the group auditor to allow for testing. Each individual engagement will need to be assessed on a case by case basis to determine what may be appropriate.
Assess the results of alternative actions taken	<ul style="list-style-type: none"> Consider whether alternative actions have allowed the requirements of ISA 600 to be met, in particular, has sufficient, appropriate audit evidence been obtained? Does the opinion need to be modified under ISA 705?
Consider wider implications for the audit report	<ul style="list-style-type: none"> Assess whether the going concern basis is appropriate, and whether there are longer term risks to viability. These could come from increased risk to the supply chain or from a potential macro-economic downturn. Working capital could also come under pressure, for example, from customer delays in paying invoices due to workforce shortages. Companies with significant supplier and/or customer bases in the impacted countries are likely to be at particular risk. Could the impact require an emphasis of matter paragraph under ISA 706? Determine whether there are wider accounting effects, for example for companies with March 2020 year-ends, consider whether any operational closures may have resulted in a need to impair assets or write down inventory values. Review how management have disclosed the impact of the virus, for example in disclosures on the principal risks to their business. How are they providing updated information to shareholders and monitoring the situation?



5. Going Concern

For some entities, the COVID-19 crisis may lead to a significant deterioration in economic conditions. For other entities, this can increase economic uncertainty.

We must assess whether these events or conditions, taken individually or in combination, could cast significant doubt on the entity's ability to continue its activity or, in certain serious cases, if the application of the accounting principle of going concern remains appropriate when drawing up the annual accounts.

Points for consideration:

- **Evaluate management's assessment of the entity's ability to continue as a going concern and consider whether management's assessment includes all relevant information that the auditors are aware of as a result of the audit.**
- **Management's assessment of the entity's ability to continue as a going concern should at least cover a period of 12 months from the date of the financial statements.**
- **Consider inquiring from management as to its knowledge of the events or conditions beyond the period of management's assessment.**
- **Maintain professional scepticism and objectively challenge management's plans and significant assumptions on events or conditions affecting the entity and its environment, including uncertainties associated with the COVID-19 outbreak.**
- **Evaluate the adequacy of the disclosures related to going concern.**

Financial statements are prepared on a going concern basis unless management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so. The assessment as to whether the going concern basis is appropriate takes into account events after the end of the reporting period. For example, for 31 December 2019 reporters that are severely affected by COVID-19, even though the significant impact on operations occurred after year-end, it will be necessary for management to consider the appropriateness of preparing financial statements on a going concern basis.

Management's assessment of going concern may need to include:

- updating forecasts and sensitiveness as considered appropriate, considering risk factors identified and different possible outcomes
- reviewing of projected covenant compliance in different scenarios
- changing management's plans for future actions
- expanding disclosures

When management is aware of material uncertainties that cast a significant doubt on the entity's ability to continue as a going concern, the entity should disclose those material uncertainties in the financial statements.



We must evaluate and conclude on the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial report, and to conclude whether a “Material Uncertainty Related to Going Concern” exists about the entity’s ability to continue as a going concern. It is important to apply professional scepticism when fulfilling this responsibility, including if management have appropriately considered this when making their assessment on the entity’s ability to continue as a going concern, and the adequacy of the disclosures in the financial report. This will undoubtedly be a key focus of many current and forthcoming audits given that uncertainty about the global economy and the immediate outlook for many companies has increased.

The following are examples of things to consider when evaluating going concern:

- The potential impact on the forecasts of future cash flows. In many cases, it is likely that the budgets and projections initially used to support the assessment of the going concern accounting principle have become less relevant given the rapidly changing conditions and may require significant revision to support the assessment made by the entity in the current circumstances.
- Whether forecasts and sensitiveness were updated as considered appropriate, considering risk factors identified and different possible outcomes.
- Whether the assessment of the going concern assumption took into account the expected impacts of the Covid-19 pandemic.
- Whether management considered the various government measures that are enacted to support the companies as far as the entity is eligible and intends to engage the necessary requests for economic support.
- If uncertainties exist about the entity's ability to continue as a going concern, a clear disclosure should be added in the notes to the financial statements.
- Any key judgment that was applied by management should be disclosed.
- When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g. liquidation basis in IFRS as going concern issue after the closing date is a specific exception to the non-adjusting events).
- Consideration of bank covenants and compliance in different scenarios

Companies adversely affected by the coronavirus, for example small businesses or those in the areas of travel, leisure & hospitality and aviation, need to consider going concern issues. They need to consider running several possible sensitivity analyses to determine whether there is any material uncertainty on its ability to continue as a going concern. This can result in additional disclosures especially if there is a material uncertainty. In some circumstances it may be necessary to consider whether it is appropriate to prepare the accounts on a going concern basis.

It is important to continuously assess and update the going concern assessment to the date the financial statements are approved.



6. Subsequent Events

Points for consideration:

- Discuss with management and those charged with governance on a timely basis, the potential impact of the COVID-19 outbreak on the financial statements.
- Consider carefully the situation in the context of the requirements of IAS 10 as follows:
 - If conditions exist at the end of the reporting period and an impairment indicator has been identified, consider whether an impairment test has been performed based on reasonable and supportable assumptions reflecting the conditions existing at the end of the reporting period.
 - If conditions exist after the reporting period and the financial effects are material, consider whether appropriate disclosures for each material category of a non-adjusting event after the reporting period have been made.
- While there is no obligation to perform any audit procedures regarding the financial report after the date of the auditor's report, if matters associated with COVID-19 become known after the date of the auditor's report, but before the financial statements are issued, there are specific requirements auditors must perform to ensure the auditor's report remains appropriate.
- After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding the financial statements. However, if the impact of the COVID-19 outbreak became known after the financial statements were issued, and had it been known at the date of the auditor's report may have caused an amendment to the auditor's report, additional consideration by the auditor is required.

At the end of each reporting period, entities should carefully evaluate information that becomes available after the reporting date but before the issuance of the financial statements. The amounts in the financial statements must be adjusted to reflect events that provide evidence of conditions that existed at the end of the reporting period. Additionally, if non-adjusting events (those that are indicative of conditions that arose after the reporting period) are material, an entity would be expected to disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

We should consider if the impact of the COVID-19 event requires adjustment to or disclosure in the financial statements, and whether the event impacts the appropriateness of the going concern basis of accounting.

Consideration should also be given to the fact that shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor's report.



Reporting periods ending on or before 31 December 2019

- With respect to reporting periods ending on or before 31 December 2019, it is generally appropriate to consider that the effects on an entity are the result of events that arose after the reporting date (eg, decisions made in response to the COVID-19 outbreak) that may require disclosure in the financial statements but would not affect that amounts recognised.
- For most entities with a 31 December 2019 year-end, the emergence of coronavirus is a non-adjusting event, since the outbreak occurred midst of January 2020.
- Although the COVID-19 pandemic would be considered as a non-adjusting event since the conditions did not exist at the closing date, certain existing conditions may need to be revised based on this new development.
- If an event is considered to be non-adjusting, then the nature of the event should be disclosed.
- Where an estimate of the financial effect on the company can be made, then this should be disclosed. Otherwise the fact that the financial effect cannot be estimated should be disclosed. The estimate does not need to be exact – a range of estimated effects is better than no quantitative information at all. In the absence of any quantitative estimate, a qualitative description should be provided.
- We should review the uncertainties as of 31 December 2019 (for existing conditions) and assess whether they have changed in light of the COVID-19 development.
- The nature of any material non-adjusting event and an estimate of its financial effect must be disclosed by way of note. Therefore, companies need to consider the impact of the coronavirus on their business, which will vary according to the specific circumstances in which it operates. This includes that the disclosures articulate potential impact in the next reporting period.
- Consider if appropriate disclosures in the financial statements have been made and audit these disclosures.

Reporting periods after 31 December 2019

- The coronavirus would most likely be an adjusting event for any reporting period ending as from 31 January 2020.
- If there is a material financial impact on your audit client's business post balance date due to the COVID-19 event where the conditions existed before the balance date, then consider if appropriate adjustments or disclosures in the financial report have been made and audit these adjustments or disclosures.
- There may be a greater degree of judgement required when identifying the conditions at balance sheet dates after 2019, and therefore assessing whether the developments are adjusting or non-adjusting events.
- For subsequent reporting periods, COVID-19 may affect the recognition and measurement of assets and liabilities in the financial statements.
- The following areas subject to judgement and estimation uncertainty must be reviewed:
 - accounting estimates (including revenue recognition; inventories; income taxes; property, plant and equipment; investments in associates and joint ventures; provisions contingent liabilities)
 - fair value measurements



- assets impairment
- expected credit loss assessments
- hedge accounting
- other financial statement disclosure requirements.
- We must consider the difficulties that management may have in preparing future projections, recognising the highly uncertain and fluid situation. We must use professional judgement and professional scepticism when evaluating the information.
- Examples of Covid-19 pandemic consequences that may be disclosed in the financial statements are as follows:
 - Decrease in sales and revenues
 - The risk of loss on significant contracts
 - Covenant breaches
 - Renegotiation of debts
 - Incapacity to obtain funding
 - Impact on collection of receivables
 - Production stoppages and closing of plants
 - Store or facility closures
 - No or less deliveries from suppliers
 - Other supply chain interruptions
 - The impact on human capital
 - Restructuring plans
 - Loss of customers or customer traffic
 - The impact on distributors
 - Production delays or limitations
 - Regulatory changes



7. Consider Impact on Financial Statements and Other Information

Material judgements and uncertainties

When reporting in uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into the risks and uncertainties facing an entity and the judgements that have been made in preparing financial information.

Consider whether the entity has disclosed significant judgements made in applying accounting policies that have the greatest effect on the financial statements.

Depending on an entity's specific circumstances, certain financial statement items may be a source of material judgements and uncertainties that requires disclosure applying IAS 1 *Presentation of Financial Statements*.

Consider whether the specific requirements in IAS 1 to disclose significant accounting policies, the most significant judgements made in applying those accounting policies and the estimates that are most likely to result in an adjustment to profits in future periods have been included in the disclosures.

All of these disclosures might be different as a result of the impact of the virus. The extent of disclosures regarding estimation uncertainty might need to be increased.

Relevant judgements and assumptions might include the:

- Availability and extent of support through government support measures that have been announced;
- Availability, extent and timing of sources of cash, including compliance with banking covenants or reliance on those covenants being waived;
- Duration of social distancing measures and their potential impacts.

In the absence of any consensus view of the future path of the COVID-19 pandemic and its impact on the economy, users cannot expect all companies to apply consistent assumptions when there is such uncertainty. This lack of consistency makes the need for full disclosure of judgements, assumptions and sensitive estimates significantly more important than usual.

Fair value measurements

Fair value measurements (such as those involved in measuring, for example, certain financial instruments and investment properties) should reflect market participant views and market data at the measurement date under current market conditions. Entities will need to pay particular attention to fair value measurements based on unobservable inputs (sometimes referred to as level 3 measurements) and ensure that the unobservable input used reflect how market participants would reflect the effect of COVID-19, if any, in their expectations of future cash flows related to the asset or liability at the reporting date.



Disclosures to the Financial Statements

- Consider and apply appropriate audit procedures when assessing whether the disclosures are materially correct and in accordance with the financial reporting framework. Refer to ISA 540 when auditing accounting estimates and relevant disclosures.
- Ensure that the disclosures appropriately describe the entity's prospects and how financial statements' users might be affected, while recognising the current high degree of uncertainty.
- Evaluate whether the entity has disclosed changes in their financial risks such as credit risk, liquidity risk, currency risk and other price risk, or in their objectives, policies and processes for managing those risks. In particular additional disclosures about liquidity risk might be needed where the virus has affected an entity's normal levels of cash inflows from operations or its ability to access cash in other ways such as from factoring receivables or supplier finance.
- If your client has not provided sufficient disclosures, consider the implications for the audit report and whether it needs to be modified in accordance with ISA 705 Modifications to the Opinion in the Independent Auditor's Report.
- If your client has concluded there is no financial impact in the current reporting period, consider if the disclosures of key assumptions supporting this are adequate.
- And whilst it is important to be aware of adjustments made by clients to reflect the impact of COVID-19 on their operations, it is equally important for auditors to apply professional scepticism and ensure that adjustments disclosed in the financial report as a result of COVID-19 are not impacted by other issues.
- If you conclude that your client has provided sufficient disclosures in the financial report, and if your client is a listed entity preparing general purpose financial statements, consider if the event disclosed is a matter of most significance in the audit of the financial report which should be raised as a Key Audit Matter in accordance with ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report.

Disclosures in Other Information

- Discuss with TCWG and management if other disclosures relating to this issue have been made outside of the financial statements and assess whether these are materially consistent with disclosures in the financial report.
- Assess whether management may have to update its analysis of the principal risks and uncertainties.
- Consider any specific local disclosure requirements, for example, those issued by the JSE.
- Any inconsistencies between the information provided by the entity in its annual report and in the financial statements about the impact of developments arising from COVID-19.
- Refer to ISA 720 The Auditor's Responsibilities Relating to Other Information for more details about the auditor's responsibilities to review other information and consider whether there is material inconsistency between the other information included in the Annual Report and the financial report.



8. Consider Impact on Audit Report

Points for consideration:

- **Revisit the Key Audit Matters to be disclosed in the auditor's report and see if any need to be updated to reflect new responses.**
- **Depending on the circumstances, consider whether to include a separate section, "Material Uncertainty Related to Going Concern", in the auditor's report.**
- **Depending on the resolution of accounting and auditing matters due to the impact of the COVID-19 outbreak, consider whether to express a modified opinion in accordance with ISA 705 (Revised).**
- **Other information that accompanies the financial statements may include additional discussion of risks associated with the COVID-19 outbreak – consider whether there is a material inconsistency between this other information and the financial statements, and report in accordance with ISA 720 (Revised).**

We must focus on matters to be able to conclude, including whether all key aspects of the audit have been appropriately addressed, such as:

- Areas that may require management to provide further evidence due to the fast-changing nature of this issue.
- New uncertainties introduced as a result of COVID-19, e.g., have appropriate changes been made to recognize any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations);
- The impact of new or changed laws or regulations on the financial statements.
- Where applicable, new key audit matters must be included in the auditor's report (e.g., matters that rise to the level of requiring significant auditor attention owing to the impact of COVID-19).

The implications for the auditor's report may include:

- For public interest entities, a Key Audit Matter (KAM) related to additional audit work needed because of the coronavirus outbreak. For instance, to describe the approach for group audit, explain there is no material uncertainty or no going concern uncertainty.
- An 'emphasis of matter' paragraph, for example to highlight a significant subsequent event disclosed in the financial statements, or a significant uncertainty arising from the outbreak
- A material uncertainty in relation to a going concern paragraph.
- A qualification, or adverse opinion, for example in respect of inadequate disclosures, or going concern uncertainties, in the financial statements.
- A qualified opinion, or a disclaimer of opinion, because of scope limitation when unable to obtain sufficient appropriate audit evidence. For instance, when stocktakes could not be attended in person.



9. Communication

Communication with Client

Important factors for communication with management, those charged with governance and key staff members include-

- Early engagement with entities to:
 - Set clear expectations as to the level of disclosure we expect to see in annual reports to communicate the impact and risk of COVID-19 on the company; and
 - Ensure management, and in particular their audit committees, understand it is vital that we have sufficient time and support to carry out our audit 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.
- Discussion with TCWG and management whether the impact of the COVID-19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the business risks arising.
- Retention and documentation in our audit files of discussions held with those charged with governance within the entities, related to the impact of coronavirus is crucial.
- Be proactive and discuss with their clients the impact of the coronavirus on the company, its business, operations, reporting timetable and the related audit timetable, including their respective contingency plans. There is a risk of delays because the company can be interrupted in preparing information.

Communication amongst Engagement Team

There will be a need for more virtual meetings across different time zones and for more frequent progress “checkins”. If there is an initial communication and understanding that there will be more interactions virtually, the team is more likely to interpret the new paradigm in the spirit in which it was intended, which is that leaders continue to be accountable for the productivity of their teams.

Remote work by team members may increase responsibilities outside of work. Strategize how best to use the team’s time. Consider replacing in-person meetings with videoconferencing and project management software to reduce time spent reading and responding to e-mail. Greater use must be made of technology in sharing data or hosting virtual meetings.



10. Practical Tips for Working from Home

It is important to acknowledge that when out of the office environment you are still working and the same standards of professionalism and commitment apply.

Below are a few tips for making your work-from-home time as effective and efficient as possible.

- **Try to keep routines. Try to maintain your existing ways of prioritising your work and tracking your tasks. Keep a structure to your day, including breaks.**
- **Create a dedicated workspace. If this isn't possible, make sure to clear up work at the end of the day – seeing an open laptop in the evening may bring back thoughts of work that you normally leave behind when you walk out of the office.**
- **You should adopt your own common-sense practices, but it normally isn't effective to work with the TV on, or have any other distractions.**
- **Make sure anyone you live with understands that whilst you are home, you are working.**
- **Get into the habit of using a video conferencing facility to keep in touch with colleagues – it can feel a little odd at first, so best to break the barrier early. Once you have started using this way of working you will question why you have not done so more frequently in the past.**
- **If permitted, make sure to get out of the house each day for some fresh air and exercise but please remember the government advice on social distancing.**
- **Remember to record time and activities for completing your timesheet.**
- **A final warning: when you are only a few steps away from the cupboard the impulse to snack is great, so perhaps best to keep those unhealthy foods hidden away!**



In addition to all of the above, there are some things that managers may also wish to think about, as managing a team remotely also brings with it some challenges:

- **Utilise video conferencing – there are significant benefits from talking to someone face to face, rather than over the phone. Schedule regular video calls as a full team, and also one-to-ones. Even when there are no specific matters to discuss, it is important to checking regularly.**
- **Clearly articulate and define expectations and timescales. It is useful to document team discussions and to note action points, so there is a record of the discussion that the team can refer to.**
- **Encourage the team to regularly communicate with other team members.**
- **Track work being undertaken and try to identify where anyone is struggling to juggle workload.**
- **Make sure each team member has the right equipment to enable them to conduct their work.**
- **Be aware of a team member who is home alone or lacks a support structure. Look out for signs that someone is struggling with isolation (tone of emails and conversations; body language on video calls; abruptness of emails; time when emails are sent; etc.).**
- **Trust the team and avoid micro-managing.**

