

The Impact of Coronavirus on Audits and the Considerations by Auditors

March 2020

The auditor should be alert and apply professional scepticism regarding the potential for COVID-19 to give rise to possible financial reporting misstatements when fulfilling its responsibility

Auditors of Financial Statements (AFS) need to consider the following during their audits:

- Impact of COVID-19 on the entity and its **operations and reporting timelines**.
- Whether those charged with governance (TCWG) performed appropriate **risk assessment** procedures to prepare for the impact of COVID-19 on the entity and their assessment of the appropriateness of using the going concern basis of preparation.
- Reconsider the impact of COVID-19 on the initial **audit risk assessment** and whether it should be revised in terms of ISA 315.
- Design and performing **specific procedures** in terms of ISA 330 in response to the risks identified.
- Whether there is a need to **revise materiality** in terms of ISA 320.
- Assessing the **financial impact** involving **accounting estimates** made by management (estimation uncertainty due to significant assumptions including projected cash flows, risk assessment and audit evidence supporting these accounting estimates and related disclosure affected by COVID-19 event)

Note: If TCWG have determined that there is *no material financial impact (or reasonably expected impact)* on their entity, adequate disclosure regarding the key assumptions should be included in the AFS to support conclusion.

Examples of accounting estimates for financial impact:

- ❖ Asset impairment / changes in assumptions for impairment testing
- ❖ Changes in the useful life of assets
- ❖ Change in FV of assets or NRV of inventory
- ❖ Changes in ECL for loans and other financial assets
- ❖ Increased costs and/or reduced demand for products and services affecting impairment calculations and / or requiring recognition of provisions
- ❖ Potential provisions and contingent liabilities arising from fines and penalties
- ❖ Uncertainty that cast significant doubt on the ability to continue as going concern (unknown duration of the impact)

- Assessment whether the **disclosures** are material to the AFS and whether it is sufficient and appropriate for the users of the AFS – If no sufficient disclosures in the AFS, the auditor needs to consider the implications on the audit report in terms of ISA 705.

- Consider whether COVID-19 and impact of this event is a matter of most significance in the audit and if there is a need to raise a **Key Audit Matter (KAM)** in accordance with ISA 701.
- **Subsequent events** – Consideration whether COVID-19 event should be seen as an adjusting or non-adjusting event in the AFS (with adequate disclosure in the AFS regarding the nature and the impact).
- **Going concern** – Evaluate the appropriateness of management's use of going concern basis of accounting in preparing its financial statements. If it is concluded that the basis of accounting used to prepare the AFS is inappropriate or there are insufficient disclosures in the AFS, the auditor needs to consider these implications for the audit report in terms of ISA 705.
- For listed entities – review **other information** in accordance with ISA 720 and consider whether there are any material inconsistencies between the other information included in the annual report and the AFS.
- **Group reporting** – consider the impact how COVID-19 may impact risk assessment, materiality and ability to obtain appropriate audit evidence – If adequate information cannot be obtained from the components, the group auditor should consider these implications on the audit report in terms of ISA 705.

Summary

Determine the following:

1. Is the risk assessment performed by management (if any) and the impact thereof on the financial statements appropriate?
2. Did management assess whether the subsequent event should be treated as adjusting or non-adjusting event (with relevant disclosures in the AFS) and is the assessment appropriate?
3. Do you agree with management's assessment as to the appropriateness of the going concern basis of preparation?
4. Is the disclosure in the financial statements adequate?

YES

NO

Perform appropriate audit procedures to support above

Consider possible impact on the audit report in terms of ISA 705 (if material)