

IMPLICATIONS OF THE COVID-19 OUTBREAK ON AUDITS AND AUDITORS

Ethics and Leadership Relating to the COVID-19 Outbreak

On the 15th of March 2020, the President of the Republic of South Africa declared the COVID-19 outbreak a national disaster. This outbreak presents an opportunity for the audit profession to reflect on the recognition of its public interest responsibility, and to demonstrate its independence and resilience to external factors. Auditors should continue to apply the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The IRBA understands that the COVID-19 outbreak has an impact on audits and auditors, and this newsletter aims to address some implications and considerations with regard to audits and audit risks. This newsletter does not address matters related to health and disease; stakeholders should refer to official announcements and advice from relevant authorities in this regard.

Implications of COVID-19 on Audits and Audit Risks

The discussion hereunder is not meant to be exhaustive.

Obtaining an understanding on the impact of the COVID-19 outbreak on the client's reporting timetable

The COVID-19 outbreak may disrupt the business operations of entities and the financial reporting process may also be impacted. Auditors should proactively discuss these matters with clients to understand whether there is an impact on the client's reporting timetable and the audit processes.

Points for consideration:

- Communicate with management and those charged with governance, on a timely basis, to fully understand the situation and determine the appropriate course of action.
- If the client's reporting timetable is delayed, will you, as the auditor, be able to realistically complete a quality audit of the financial statements so that regulatory reporting deadlines are adhered to?
- Has the client communicated, on a timely basis, with the relevant regulatory authority (the JSE, the South African Reserve Bank, the Prudential Authority, the Estate Agencies Affairs Board, etc.)?

Risk assessment

With the COVID-19 outbreak, auditors 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, auditors should evaluate the impact and may need to revise their risk assessments and modify further planned audit procedures in accordance with ISA 315

(Revised)¹.

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.

Obtaining audit evidence

Due to the travel restrictions and various working arrangements, auditors may have difficulties with accessing client premises to perform audit procedures (e.g. client's offices or warehouses may be closed or auditors may not be able to travel and observe client's inventory counts); and/or may not be able to obtain the sufficient appropriate audit evidence (e.g. significant delays in receiving audit confirmations).

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 501².
- Consider performing alternative audit procedures when there is significant delay in receiving audit confirmations. Refer to ISA 505³.
- Consider any scope limitation that may lead to a modified audit opinion in terms of ISA 705⁴.
- 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.

Group audits with significant components in affected countries

For group audits, component auditors in affected countries may encounter difficulties in obtaining sufficient appropriate audit evidence, which may cause significant delays in the completion of component audits. In addition, the group engagement team members may not be able to travel to affected countries to, for example, review the work papers of significant components. The group engagement team is, however, responsible for obtaining sufficient appropriate audit evidence to

¹ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 31 and A151.

² ISA 501, *Audit Evidence – Specific Considerations for Selected Items*, paragraphs 7, A12-A14.

³ ISA 505, *External Confirmations*, paragraphs 12, A18-A19.

⁴ ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

form the group audit opinion. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement. Refer to ISA 600⁵.

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.

Going concern

The COVID-19 outbreak has caused, and has a potential to cause, a significant impact on some entities' economic conditions. Examples would be disruption to business operations in, or with links to, affected countries, interrupted supply chains, uncertainty on asset valuation, etc. This will, in turn, have an impact on the cash flows and/or projected financial information and cash flows of the entity, which may affect the assessment of the entity's ability to continue as a going concern.

When preparing financial statements, management is required to make an assessment of an entity's ability to continue as a going concern. The related requirements are set out in IAS 1 (Revised)⁶. Auditors are responsible for obtaining sufficient appropriate audit evidence regarding, and have to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. Refer to ISA 570 (Revised)⁷.

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

⁵ ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs 8(b)(ii) and 11.

⁶ IAS 1 (Revised), *Presentation of Financial Statements*.

⁷ ISA 570 (Revised), *Going Concern*, paragraph 6.

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.
- Paragraph 16 of ISA 570 (Revised) sets out additional audit procedures when events or conditions are identified.
- Evaluate the adequacy of the disclosures related to going concern.
- Paragraphs 21-24 of ISA 570 (Revised) outline the implications on the auditor's report.

Subsequent events

Auditors may also consider the impact of events that occur after the date of the financial statements, in terms of ISA 560⁸. In particular, auditors may consider the financial reporting and disclosure requirements for the material impairment of assets or businesses as a result of the COVID-19 outbreak.

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 10⁹ 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. Refer to ISA 560¹⁰.
- 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

⁸ ISA 560, *Subsequent Events*.

⁹ IAS 10, *Events after the Reporting Period*.

¹⁰ ISA 560, *Subsequent Events*, paragraph 10 to 13, A11 to A17.

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. Refer to ISA 560¹¹.

Accounting estimates

Auditors may also consider the impact of COVID-19 on the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates and related disclosures in the audit of the financial statement, in terms of ISA 540 (Revised)¹²¹³.

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.

The above list is not exhaustive – auditors should consider other key accounting estimates required to be made by management under IFRS.

Implications for the auditor's report

In addition to the above areas, auditors may also consider the implications for the auditor's 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. Refer to ISA 701¹⁴.
- Depending on the circumstances, consider whether to include a separate section, "Material Uncertainty Related to Going Concern", in the auditor's report. Refer to ISA 570¹⁵.
- 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)¹⁶.

¹¹ ISA 560, *Subsequent Events*, paragraphs 14-17, A18-A20.

¹² ISA 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

¹³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, that has been issued and is effective for audits of financial statements for periods beginning on or after 15 December 2019.

¹⁴ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, for guidance.

¹⁵ ISA 570, *Going Concern*.

- 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)¹⁷.

A dedicated [COVID-19 webpage](#) has been added to the IRBA website. This will form a central repository of information that has been released both locally and internationally in relation to the outbreak and the implications on audits and auditors. While this is not meant to be a complete source of information for auditors, it will be updated on an ongoing basis.

Kind regards,

Bernard Peter Agulhas
Chief Executive Officer

About the IRBA

The IRBA is a public protection statutory body established to protect the financial interests of the public by ensuring registered auditors and their firms deliver services of the highest quality. It upholds audit firm independence to ensure that audit quality is such that it enhances the accuracy and credibility of financial performance reporting. In this way, the IRBA has an important role to play in building the reputation of South Africa as an investment market for both local and global investors and driving economic growth for the country.

The IRBA also registers suitably qualified accountants as auditors, who must adhere to the highest ethics standards, and promotes the auditing profession through the effective regulation of assurance conducted in accordance with internationally recognised standards and processes.

¹⁶ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

¹⁷ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*