

## **Implications of the Current Developments in Ukraine and Russia on Audits and Auditors in South Africa**

This newsletter addresses key considerations for auditors arising from the current conflict between Ukraine and Russia, and other affected countries. Despite these unusual circumstances, the International Auditing Standards (ISAs) and relevant ethical requirements still apply. Auditors in South Africa are therefore reminded to remain vigilant and continue performing high-quality audits despite the current conflict. Also, auditors need to develop policies or procedures that are responsive to changes in the nature and circumstances of the audit firm and its engagements.

### **Key Considerations**

The discussion hereunder is not meant to be exhaustive. This guidance may also be applicable to other assurance and review engagements.

### ***Risk assessment***

Auditors need to consider the impact of the current conflict on the risks of material misstatement of the financial statements<sup>1</sup> for both new and in-progress audit engagements. Due to the current conflict, there may be new significant risks, for instance, related to the audit client's liquidity, impairment of assets, and determination of fair values.

### ***Obtaining audit evidence***

Auditors need to design and perform audit procedures in such a way as to enable them to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion<sup>2</sup>. To achieve this, auditors may need to change their audit approach and develop alternative procedures.

The following points are 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 the attendance of physical inventory counts is impracticable. Refer to ISA 501<sup>3</sup>.
- Consider performing alternative audit procedures when there is a significant delay in the receiving of audit confirmations. Refer to ISA 505<sup>4</sup>.
- Consider any scope limitation that may lead to a modified audit opinion in terms of ISA 705<sup>5</sup>.

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<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; and ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*.

<sup>2</sup> ISA 500, *Audit Evidence*.

<sup>3</sup> ISA 501, *Audit Evidence – Specific Considerations for Selected Items*, paragraphs 7 and A12-A14.

<sup>4</sup> ISA 505, *External Confirmations*, paragraphs 12 and A18-19.

<sup>5</sup> 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<sup>6</sup>.

Auditors will need to consider whether the quality of the audit evidence that is obtained is affected by the current conflict.

### ***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. Among other things, that may cause significant delays in the completion of component audits. In addition, the group engagement team members may not be able to travel to the affected countries to, for example, review the workpapers of significant components. The group engagement team, however, is responsible for obtaining sufficient appropriate audit evidence to form the group audit opinion. Likewise, the group engagement partner is responsible for the direction, supervision and performance of the group audit engagement. Refer to ISA 600<sup>7</sup>.

Points to consider include the following:

- Communicate with component auditors as soon as practicable, to discuss potential impacts arising from the current conflict.
- Consider any increased risk that financial information for those components may be inaccurate or incomplete due to the current conflict.
- Revise the risk assessment and modify the audit strategy, and then 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.

### ***Going concern***

The current conflict has caused and has the potential to have a significant impact on the economic condition of some entities due to, for example, disruption to business operations in the affected countries or those with links to those countries. Such impact might also result in interrupted supply chains and uncertainty on asset rights, conditions and valuations. In turn, this will affect the cash flows and/or the projected financial information of the entities, which may have an influence on the assessment of their ability to continue as going concerns.

Therefore, 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 International Accounting Standard (IAS) 1 (Revised)<sup>8</sup>. Auditors are responsible for obtaining sufficient appropriate audit evidence regarding, and 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

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<sup>6</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*.

<sup>7</sup> ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*; and the [Guide for Registered Auditors: Joint Audit Engagements](#).

<sup>8</sup> IAS 1 (Revised), *Presentation of Financial Statements*.

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)<sup>9</sup>.

The following points for are consideration:

- Evaluate management's assessment of the entity's ability to continue as a going concern and consider whether the assessment includes all relevant information that the auditors are aware of as a result of the audit. The relevant information is likely to include:
  - Financing and funding;
  - Entities that have suspended sales or services sales in certain markets, due to sanctions or market conditions;
  - Business disruption, including supply chain issues;
  - Onerous contracts;
  - Net realizable value of inventories;
  - Insurance cover on assets;
  - Currency valuations; and
  - The carrying value of investments.
- Consider inquiring from management as to their knowledge of the events or conditions beyond the period of management's assessment.
- Maintain professional skepticism and challenge management's plans and significant assumptions on events or conditions affecting the entity and its environment, including uncertainties associated with the current events.
- Paragraph 16 of ISA 570 (Revised) sets out additional audit procedures when certain events or conditions are identified.
- Evaluate the adequacy of the disclosures related to going concern.

### ***Subsequent events***

Auditors need to also consider the impact of events that occur after the date of the financial statements, in terms of ISA 560<sup>10</sup>. In particular, auditors may need to consider the financial reporting and disclosure requirements for the material impairment of assets or businesses as a result of the current events.

In addition, auditors need to consider the current conflict carefully in the context of the requirements of IAS 10<sup>11</sup> as follows:

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<sup>9</sup> ISA 570 (Revised), *Going Concern*, paragraph 6.

<sup>10</sup> ISA 560, *Subsequent Events*.

<sup>11</sup> IAS 10, *Events after the Reporting Period*.

- 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 the non-adjusting event after the reporting period have been made.

Auditors will therefore need to ensure that management's disclosures relating to any material adjusting and non-adjusting events, and the related estimates of financial effects, are appropriately disclosed in the financial statements.

### ***Accounting estimates***

Furthermore, auditors need to consider the impact of the current conflict 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)<sup>12</sup>.

In this regard, auditors need to consider whether the current conflict presents impairment indicators at the reporting date which result 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.

With cash and investment assets frozen by some banks and, in some cases, tangible assets such as properties and movable assets being seized or control being restricted, auditors will need to review management's assessment of impairment indicators. Other assets that might be impaired include loans or other debtors due from companies in the affected countries, where there may now be uncertainty over the ability or willingness to repay such loans.

### ***Consideration of laws and regulations***

With changes regarding sanctions and related restrictions, it may be difficult for management to ensure that they have complied with laws and regulations.

Consequently, auditors need to obtain sufficient appropriate audit evidence regarding compliance with the provisions of the laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements<sup>13</sup>.

### ***Implications for the auditor's report***

In addition to the above areas, auditors need to consider the implications for the auditor's report.

Points to consider include the following:

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<sup>12</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*; and ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

<sup>13</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*.

- 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 701<sup>14</sup>.
- Depending on the circumstances, consider whether to include a separate section on “Material Uncertainty Related to Going Concern” in the auditor’s report. Refer to ISA 570<sup>15</sup>.
- Subject to the resolution of accounting and auditing matters due to the impact of the current conflict, consider whether to express a modified opinion in accordance with ISA 705 (Revised)<sup>16</sup>.
- Other information that accompanies the financial statements may include an additional discussion of risks associated with the current conflict. In that regard, consider whether there is a material inconsistency between this other information and the financial statements, and report in accordance with ISA 720 (Revised)<sup>17</sup>.

### **Cybersecurity**

Audit firms are reminded of the risk of cyberattacks. Auditors are referred to the [\*IRBA Staff Audit Practice Alert 6: Protection and Retention of Client Data\*](#) for guidance and considerations with respect to the protection and retention of client data.

### **Ethical considerations**

The current conflict increases uncertainty and may present financial difficulties and increases operational risks. Auditors are urged to remain focused on the public interest and their professional and ethical responsibilities. Compliance with the fundamental principles – integrity, competence and due care, objectivity, professional behaviour, and confidentiality must be maintained. Auditors need to be alert to changing circumstances that may require the level of threats to be reassessed, and reconsider the actions they take in maintaining their independence.

Kind regards,

**Imre Nagy**

**Acting 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*

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<sup>14</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, for guidance.

<sup>15</sup> ISA 570, *Going Concern*.

<sup>16</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*.

<sup>17</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*.

*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.*

*Also, the IRBA 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.*