The Impact of COVID-19 on Audit

A Guidance for Auditors

From the Desk of Technical Services

April 2020
Foreword

The independent auditors provide trust to the capital markets. The consequences of COVID-19 present a unique set of challenges for auditors, as our profession would be tested once again to prove its value. We would be expected to put in extra efforts in identifying and responding to risks brought in by the pandemic in a way that supports the organization best and also enhances the public confidence and trust in the financial reporting.

About this publication

The Institute’s Technical Services team has prepared this publication with the objective to draw your attention to some of the significant implications of COVID-19 on audit, that may impact your audit work.

The audits conducted in COVID-19 impacted business environment would necessitate heightened professional skepticism and more consideration and discussions of scope limitations.

This publication is in question and answer form, and besides providing a summary of key areas also addresses practical audit issues that an auditor may encounter while conducting the audits in prevailing and post COVID-19 environment.

This publication considers the requirements of International Standards on Auditing as applicable in Pakistan (ISAs). It outlines some of the key areas for auditor’s consideration, however appropriate responses to issues will depend on each audit’s unique facts and circumstances. The matters and examples included in this document are not all-inclusive. Further analysis and judgment would be necessary in order for an auditor to apply the requirements to its own facts, circumstances and clients. For additional details on ISAs you would need to refer to the relevant literature. Further, the information provided in this document is for general guidance only and may change from time to time.

We hope you find this publication helpful.

Rana Muhammad Usman Khan
Chairman Auditing Standards and Ethics Committee

Sohail Malik
Director Technical Services
## Introduction

- Impact of COVID-19 on companies: 1
- Impact of COVID-19 on audit: 1
- Key questions for the auditor: 1
- Key considerations for the auditor: 2
- Key ISAs: 3

## Risk Assessment, Materiality and Communication

- What could be the impact of COVID-19 outbreak on auditor’s identification and assessment of risks of material misstatement?: 5
- Which risk assessment procedures may provide particularly relevant information in identifying and assessing the risks of material misstatement in the economic environment affected by COVID-19?: 5
- What could be the impact of COVID-19 on auditor’s assessment of company’s internal control?: 6
- What could be the impact of COVID-19 on fraud risk?: 7
- What could be the impact of COVID-19 on auditor’s communication with the board of directors, audit committee and management?: 8
- What could be the impact of COVID-19 outbreak on materiality?: 9
- Would COVID-19 related adjustments and disclosures in financial statements impact auditor’s application / selection of a benchmark?: 10

## Audit Evidence

- Would COVID-19 impact the auditor’s responsibility of obtaining sufficient and appropriate audit evidence?: 11
- How auditor’s responsibility of obtaining audit evidence through physical verification of inventories would be impacted?: 12
- What would be the auditor’s considerations when management reopens the inventory warehouse after easing of COVID-19 restrictions?: 13
- What should be the auditor’s response when management refuses to allow auditor’s attendance to inventory count due to safety concerns?: 13
- How the auditor may respond when a significant delay is expected in the inventory count, after the year end?: 14
- What could be the implications on the auditors’ report in case the auditor has not been able to perform physical verification of inventories at the date of financial statements?: 14
- What could be the impact of COVID-19 on the auditor’s responsibility of obtaining audit evidence through external confirmations?: 15
### Contents

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>How auditor should respond when management refuses to allow to send a confirmation request, due to mobility and access restrictions?</td>
<td>16</td>
</tr>
<tr>
<td>What could be the implications on the auditor’s report for inability to circulate and/or receive appropriate response to external confirmations?</td>
<td>16</td>
</tr>
<tr>
<td>How COVID-19 would affect the auditor’s responsibility to audit the accounting estimates?</td>
<td>17</td>
</tr>
<tr>
<td>How auditor should evaluate the reasonableness of the accounting estimates?</td>
<td>18</td>
</tr>
<tr>
<td><strong>Going Concern</strong></td>
<td></td>
</tr>
<tr>
<td>What could be the impact of COVID-19 on auditor’s and management’s responsibilities relating to going concern assessment?</td>
<td>19</td>
</tr>
<tr>
<td>How auditor should evaluate forecasts prepared by management to support the company’s ability to continue as a going concern?</td>
<td>21</td>
</tr>
<tr>
<td>What should be period of management’s assessment?</td>
<td>22</td>
</tr>
<tr>
<td>How an auditor should proceed if management is unable to assess going concern due to continued uncertainty?</td>
<td>22</td>
</tr>
<tr>
<td>What could be the impact of COVID-19 on company’s ability to continue as a going concern and auditor’s report?</td>
<td>23</td>
</tr>
<tr>
<td><strong>Subsequent Events</strong></td>
<td></td>
</tr>
<tr>
<td>How COVID-19 related events may impact the audits of financial statements of December 2019 and March 2020 (onwards) year/period ends?</td>
<td>25</td>
</tr>
<tr>
<td>How auditor may respond to the COVID-19 subsequent events?</td>
<td>26</td>
</tr>
<tr>
<td><strong>Written Representations</strong></td>
<td></td>
</tr>
<tr>
<td>Would COVID-19 related events and circumstances require auditor to obtain ‘specific’ written representations from management?</td>
<td>29</td>
</tr>
<tr>
<td>Should the auditor consider written representations as sufficient appropriate audit evidence on their own?</td>
<td>29</td>
</tr>
<tr>
<td>What could be the impact on auditor’s report, if management does not provide reliable written representations or refuses to provide ‘specific’ written representations?</td>
<td>30</td>
</tr>
<tr>
<td><strong>Auditor’s Reporting</strong></td>
<td></td>
</tr>
<tr>
<td>What is the general guidance about audit opinions?</td>
<td>31</td>
</tr>
<tr>
<td>What could be the possible implications of COVID-19 related matters on the auditor’s report?</td>
<td>32</td>
</tr>
<tr>
<td>What would be the impact of COVID-19 on auditor’s reporting of Key Audit Matters?</td>
<td>35</td>
</tr>
<tr>
<td>Can the auditor report COVID-19 related going concern matter as a KAM?</td>
<td>35</td>
</tr>
</tbody>
</table>
Would the COVID-19 related mobility restrictions impact auditor’s determination and communication of KAMs? 36

Should the auditor consider including an emphasis of matter paragraph instead of a KAM? 36

Should the auditor consider including KAM based on company’s information outside the financial statements? 36

Can the auditor report subsequent event as a KAM or an emphasis of matter paragraph? 36

Can the auditor consider including an emphasis of matter paragraph in the auditor’s report in relation to COVID-19 events and conditions? 37

Would COVID-19 related information affect the auditor’s responsibility for disclosures outside the financial statements? 38

How auditor should consider the impact of COVID-19 related disclosures outside the financial statements, on the audit report? 38

**Group Audits**

What could be the impact of COVID-19 on group audits? 39

**Half Yearly Review of Financial Statements**

What are the procedures that auditor would need to perform for review of interim financial information? 40

What could be the impact of CVOID-19 on auditor’s responsibilities relating to going concern assessment for review of March 2020 financial statements? 41

In a review of financial statements, what could be the implications on the auditors’ review report in case of scope limitation? 41

Is there any change in the auditor’s review report of compliance with corporate governance regulations under the Auditors (Reporting Obligations) Regulations 2018? 41

**Other Resources**

42
Introduction

The Economist reported that COVID-19 has destroyed $23 trillion in global market value since mid-February. Globally as well as in Pakistan, the number of industries immediately impacted by the COVID-19 outbreak are broad.

Impact of COVID-19 on companies

COVID-19 has also created an enviorment of uncertainty. Countries, including Pakistan have sealed their borders and sent people indoors. In short the world has come to a standstill, causing global downturn and brining in new risks for companies. These risks have started to pose challenges both operationally and financially. In coming days and weeks companies would be evaluating the risks with greater clarity and responding to the new challenges with greater certainty.

The companies would also have to consider the consequences of COVID-19 in context of their financial reporting. The considerations and efforts of management may revolve around preparation of complete books of account, going concern assessments, preparation of accounting estimates and determination of fair values and making appropriate disclosures in the financial statements and other information.

Impact of COVID-19 on audit

Independent auditors play an important role in the financial reporting process by providing an independent opinion on financial statements.

The indications of adverse consequences of COVID-19 on reporting companies’ can be observed and implications may further increase in coming periods. There could be range of challenges such as liquidity crunch, resource constraints, under-utilized assets, legal and contractual non-compliances, and in certain cases there would be existential concerns.

The COVID-19 crisis and related economic uncertainty present a unique set of challenges for auditors. The stakeholders would demand quality audits, having effective and efficient approach and appropriate and timely audit reports. The auditors are expected to put in more extensive efforts while conducting the audits in current and post COVID-19 enviorment. The auditors may not have previously factored in the COVID-19 related risks in their planning and audit strategies.

While auditing and reviewing the financial statements the auditor’s focus area would be evaluating the reporting companies response to the COVID-19 related identified risks.

Key questions for the auditor

In present enviorment of limited mobility and access, together with uncertain future, the key considerations for the auditors are responding to the following questions:

How COVID-19 has affected the company and how it would impact my risk assessment and materiality

How could I obtain sufficient appropriate audit evidence, and whether mobility and/or access restrictions result in scope limitation

Whether company has appropriately reflected the impact of COVID-19 in the financial statements, including going concern and subsequent event considerations

What would be the implications of COVID-19 on my audit report
Key considerations for the auditor

The complexity and uncertainty emanating from COVID-19 health crisis, along with the mobility and access restrictions and greater use of management judgments in using the subjective and principle based accounting and reporting standards would demand:

- Heightened professional skepticism
- Consideration of scope limitations

Heightened professional skepticism

Professional skepticism is about asking ourselves, “how do we know and how can we be so sure?”. It is about asking critical questions.

Professor Arnold Schilder (Chairman IAASB, 2009-2019)

Owing to COVID-19 situation, the auditor may be:

- Unable to obtain the original documents;
- Unable to perform the planned audit procedures; or
- Able to obtain authentication of documents remotely.

These scenarios (though not all-inclusive) may lead to information limitations, resource constraint or budget and time pressures for an auditor. Ultimately leading to the auditor’s inability to exercise an appropriate level of professional skepticism.

In view of possible adverse implications of COVID-19 on reporting companies, the auditor’s use of professional skepticism is reinforced. The auditor should be able to exercise professional skepticism in obtaining audit evidence, due to possibility of various factors, including:

- Higher risk and susceptibility of material misstatement
- Presence of fraud indicators
- Errors detected
- Complex judgments
- Incomplete or consistent audit evidence contrary to the initial risk assessment

The auditor should also re-evaluate and challenge the initial risk assessment that leads to a particular skepticism level. The re-evaluation would be based on evidence obtained throughout the audit to determine if the original assessment is still appropriate.

Consideration of scope limitations

A possible outcome of the auditor’s inability to obtain information and explanations necessary to perform the audit procedures and obtain essential audit evidence, could lead to the scope limitation.

The limitation of scope could involve:

- Circumstances beyond the control of the company;
- Circumstances relating to the nature or timing of the auditor’s work; or
- Limitations imposed by management.

The present lockdown situation would be a limitation beyond the control of the company. In present circumstances, for most companies provision of audit information would not be possible.

Further, COVID-19 implications may result in the various limitations, including ineffectiveness of company’s controls, auditor’s inability to obtain evidence about management provided estimates, management refusal to auditor for attending inventory count and management’s refusal to allow auditor from requesting external confirmations etc.

The auditor, while being conscious of the post COVID-19 changed environment and through detailed risk assessment, may be in a position to identify the expected limitations at the initial stages of the audit.

The auditor should enter into dialogue with management for removal of limitation/s and extended time for completion of audit. Further, the situation may necessitate performance of alternative audit procedures.

The auditor should also consider the impact of scope limitation when forming the audit opinion. The opinion would be modified (qualified opinion or to disclaim an opinion on the financial statements) where the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion.
Key ISAs

In accordance with the provisions of the Companies Act, 2017, the auditor shall comply with all ISAs adopted by the Institute of Chartered Accountants of Pakistan (ICAP/The Institute).

ICAP has adopted all ISAs issued by the International Auditing and Assurance Standards Board (IAASB). The ISAs set out the responsibilities and requirements of auditors in conducting an audit.

The impact of COVID-19 may result in circumstances and events where certain requirements of certain ISAs may require enhanced consideration. This would vary from audited company to company.

An ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist.

The auditor shall comply with all ISAs relevant to the audit.

The auditors are required to comply with all of the requirements in respect of ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and ISA 220, Quality Control for an Audit of Financial Statements.

In current circumstances, involving remote audits, implementation, application and demonstration of quality control is central to the audit. The client acceptance and continuance procedures should ensure that clients in accordance with auditor’s expertise and experience are taken on board. The auditor should enforce policies for more strict supervision and communication with the audit team. Appropriate resources (including experts, if required) should be engaged that are well equipped and well versed with recent economic events and relevant technological knowledge to carry out the audit engagements smoothly. The capacity and competence building would be important, ensuring that all personnel receive appropriate levels of training and support for their roles.

The auditor will need to document clearly on the audit file how the direction, supervision and review process was structured and operated to overcome obstacles, and how communication with team members and in particular key audit partners, engagement quality control reviewers and any firm technical reviewers was maintained.
### The Impact of COVID-19 on Audit

**A Guidance for Auditors**

<table>
<thead>
<tr>
<th>Category</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk management</strong></td>
<td>Understand the impact of COVID-19 on your client’s business, operations, finances and internal controls.</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Determine the strategy for communicating with client and audit team.</td>
</tr>
<tr>
<td><strong>Materiality</strong></td>
<td>Consider appropriateness of materiality by evaluating the materiality threshold, benchmark and changed/changing circumstances.</td>
</tr>
<tr>
<td><strong>Resources and supervision</strong></td>
<td>Consider allocating more experienced resources to understand the implications of COVID-19 on audit company, perform alternate procedures and draw appropriate conclusions. Consider providing more supervision and holding brainstorming sessions with the team.</td>
</tr>
<tr>
<td><strong>Audit evidence</strong></td>
<td>Consider the implications of various factors on the audit procedures and audit evidence, including:</td>
</tr>
<tr>
<td></td>
<td>- Accessing client records</td>
</tr>
<tr>
<td></td>
<td>- Understanding and testing internal control</td>
</tr>
<tr>
<td></td>
<td>- Performing physical inventory counts</td>
</tr>
<tr>
<td></td>
<td>- Circulating external confirmations</td>
</tr>
<tr>
<td></td>
<td>- Group audits</td>
</tr>
<tr>
<td></td>
<td>- Assessing going concern based on forecasts</td>
</tr>
<tr>
<td></td>
<td>- Performing subsequent event procedures</td>
</tr>
<tr>
<td></td>
<td>- Obtaining specific management representations</td>
</tr>
<tr>
<td></td>
<td>Consider the scope limitations due to inability to perform audit procedures, including alternate procedures.</td>
</tr>
<tr>
<td></td>
<td>Communicate the scope limitations to the audited company, as early as possible.</td>
</tr>
<tr>
<td></td>
<td>Evaluate the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made.</td>
</tr>
<tr>
<td></td>
<td>Consider the audit documentation requirements, including where unable to perform procedures or obtain sufficient appropriate audit evidence.</td>
</tr>
<tr>
<td><strong>Going concern</strong></td>
<td>Consider company’s ability to continue as going concern based on all available information, including management prepared forecasts.</td>
</tr>
<tr>
<td><strong>Timelines</strong></td>
<td>Consider and communicate the need for additional time due to practical constraints such as limited mobility, remote access of company’s data, limited access to company’s personnel, performance of alternate and other procedures.</td>
</tr>
<tr>
<td><strong>Subsequent events</strong></td>
<td>Consider the impact of subsequent events on the financial statements.</td>
</tr>
<tr>
<td><strong>Reporting</strong></td>
<td>Consider the implication of inability to perform audit procedures, incomplete accounting record and going concern uncertainty on the audit opinion. Consider new key audit matters in view of COVID-19 implications on companies and audit work</td>
</tr>
</tbody>
</table>
Risk Assessment, Materiality and Communication

What could be the impact of COVID-19 outbreak on auditor’s identification and assessment of risks of material misstatement?

ISA 315, *Identifying and Assessing the Risks of Material Misstatement*, deals with the auditor’s responsibility to identify and assess the risks of material misstatement in the financial statements. The auditor identifies and assesses the risk of material misstatement through understanding the company and its environment (including understanding company’s internal control). An understanding of the business risks facing the company increases the likelihood of identifying risks of material misstatement.

With COVID-19 outbreak, the auditor should evaluate the impact of this outbreak on its audited companies. Audit risks may become more significant or new risks may exist due to current events (e.g. those affecting the economy, credit and liquidity). The consequences of COVID-19 may provide information about additional risks of material misstatement that have not been previously recognised by the auditor. Accordingly, as part of audit planning, auditor may need to reassess the risks of material misstatement of the financial statements, after the COVID-19 outbreak.

For audits which are/were in progress, the auditor should evaluate impact of COVID-19 to:

- Revisit and revise the risk assessment
- Modify the audit procedures

The auditor also needs to discuss with management and those charged with governance whether the impact of the COVID-19 has been incorporated into company’s risk assessment processes. For example, if the company’s supply chain involves affected jurisdictions, there may be an impact on the company’s risk assessment.

Which risk assessment procedures may provide particularly relevant information in identifying and assessing the risks of material misstatement in the economic environment affected by COVID-19?

In the COVID-19 impacted economic environment, examples of risk assessment procedures that may provide particularly relevant information in identifying and assessing the risks of material misstatement include:

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading publically available information</td>
<td>Reading public information about the impact of the economic environment on the company is expected to provide information about the risks that the COVID-19 related events and circumstances may have posed to the company, its sector, and economy in general. Relevant sources may include, business publications, analyst reports and industry/company-issued press releases.</td>
</tr>
<tr>
<td>Obtaining an understanding of a company’s current and prospective, liquidity and financing requirements</td>
<td>In economically strained environment companies may not be able to regularly access funds through short-term borrowings, may have other liquidity issues, such as significant collateral calls or a lack of acceptable collateral, may be at risk of violating debt covenants, or may have significant debt repayments becoming due within one year. In such cases, companies may be unable to settle their obligations as they become due. In turn, this situation could affect the risks of material misstatement related to, for example, the classification of long-term liabilities or valuation of long-term assets, or it could result in substantial doubt about the company's ability to continue as a going concern.</td>
</tr>
<tr>
<td>Obtaining an understanding of the company’s performance measures</td>
<td>The performance measures vary across industries. Obtaining an understanding of the company's performance measures.</td>
</tr>
<tr>
<td>Performing analytical procedures</td>
<td>Performing analytical procedures designed to enhance the auditor’s understanding of the client’s business and the significant transactions and events that have occurred since the prior year-end and identify areas that might represent specific risks relevant to the audit.</td>
</tr>
</tbody>
</table>
The risk assessment requirements for the auditor include incorporating knowledge obtained during past audits and interim reviews into the auditor’s process for identifying risks of material misstatement. However, in a changing economic environment, the auditor should evaluate whether the prior years’ information remains relevant and reliable. For example, when performing an analytical procedure in the current economic environment, prior period financial information may not be an appropriate data point in developing an expectation.

What could be the impact of COVID-19 on auditor’s assessment of company’s internal control?

ISA 315 requires the auditor to gain an understanding of company’s internal control relevant to the audit. Controls relevant to audit are typically controls over financial reporting. Further, ISA 330, The Auditor’s Responses to Assessed Risks, deals with the auditor’s responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA 315 in the audit of the financial statements.

The COVID-19 may significantly impact company’s internal control structure. Companies due to unavoidable circumstances would be reacting to the changes in different ways depending on the type and severity of change. The internal control adjustments may be required as business processes may be disrupted or key personnel may be unavailable. For example, currently majority of workforce are working from home and this may have an impact on the operation of controls. The modifications in internal control also pose the risk of incomplete or insufficient data. Further, in certain cases of adversely impacted companies with limited resources, the internal control adjustments with changing circumstances may not be adequate or possible.

These COVID-19 triggered modifications or absence of internal controls by audited companies may impact the auditor’s risk assessment, planned audit approach and procedures and audit conclusion.

Revisit the risk assessment

The auditor should inquire as to any changes in the client system of internal control since the time that preliminary work or prior year work was performed. Further, the auditor (whether working remotely) should obtain audit evidence (beyond inquiry) that indicates controls are designed in a way that would prevent or detect and correct material misstatements in a timely manner.

Consider the impact on planned audit approach

The disruption in business processes, unavailability of company’s key personnel, incomplete or inaccessible data, together with the lack of adequate staff at auditor’s end would demand a revisit to the auditor’s audit approach and nature, extent and timing of audit procedures. In these circumstances, the auditor’s would be required to consider whether alternate work is necessary and accordingly select and perform alternate audit procedures.

The auditor while considering the alternate work and performing alternative audit procedures due to company’s changes in internal control, should maintain professional skepticism, and consider:

- Assigning more experienced staff, those with special skills, or using experts.
- Providing more supervision.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
- Making general changes to the nature, timing or extent of audit.

Consider the impact on audit report

Where the auditor is unable to obtain sufficient appropriate audit evidence to perform and complete the risk assessment process, then auditors may have scope limitations.
What could be the impact of COVID-19 on fraud risk?

ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, requires that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud.

The consequences of COVID-19 may trigger certain risk factors that may affect the risk of misstatement due to fraudulent financial reporting. The current circumstances remind the auditor to exercise professional skepticism, and conduct the audit engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present.

The auditor should be responsive to various factors that may indicate heightened fraud risk, such as:

- Difficulties in confirming bank and other balances,
- Attempts by management to intercept or alter confirmation requests or responses
- Use of personal-type bank accounts held in the name of directors or employees instead of corporate-type bank accounts for company business
- Unusual delays by management in the production of routine documents requested by the auditor
- Inconsistent, vague, or incomplete information and responses by management
- Problematic relationships between the auditor and management

To address the risks the auditor should consider focusing on following areas, besides others:

<table>
<thead>
<tr>
<th>Confirmations</th>
<th>Obtain confirmation of material amounts included in the company’s financial statements directly rather than rely solely on information provided by the company’s management.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>Obtain an understanding of the company and its environment, including the sources and composition of revenues; specific attributes of revenue transactions; the company’s business and financial reporting processes regarding revenue and amounts due from customers; and unique industry considerations.</td>
</tr>
<tr>
<td>Unusual transactions</td>
<td>Gain an understanding of the business rationale for significant unusual transactions and whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets.</td>
</tr>
<tr>
<td>Transactions with related parties</td>
<td>Transactions with related parties may play a significant role in the company’s operations, specially companies that are owned or controlled by a small group of individuals or a family. The auditor, therefore, should be aware of a risk of undisclosed related party transactions or side agreements</td>
</tr>
</tbody>
</table>

The auditor’s assessment of the risks of material misstatement due to fraud should be ongoing throughout the audit.
What could be the impact of COVID-19 on auditor’s communication with the board of directors, audit committee and management?

ISA 260 (Revised), Communication with those Charged with Governance and ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance, deal with the auditor’s responsibility of reporting relevant audit matters to those charged with governance (i.e. audit committee and board of directors), including details of control deficiencies observed during the audit.

Further, the statutory provision require the auditor of listed company to meet with audit committee.

The present lockdown situation and uncertainty about its easement in near future would restrict or omit the physical interaction between the auditor and company’s audit committees and board of directors. In certain cases, due to travel restrictions, the physical interaction between auditor and company’s management (Chief Executive Officer, Chief Financial Officer, other executives responsible for company’s operations) may also become an issue.

The auditor, should consider communicating the implications of restrictive mobility and access in normal audit process. The auditor may consider communicating these matters through engagement letter. Examples include, performance of audit remotely, arrangement for the access to the books of account, requirement of performing more alternate procedures and clear expectation that additional time may be required owing to various practical constraints.

The auditor’s communication in the context of COVID-19 potential impact on company may involve expanded discussions. The auditor may be required to communicate with the audit committee and board of directors to obtain information about the company’s assessment and strategy related to COVID-19 risks, other information relevant to the audit, discuss planned audit scope, timing, key audit matters and conclusions. However, the previously established practice of physical meetings might not be possible, in view of current mobility restrictions. The auditor would be required to:

- Establish contact with the audit committee and board of directors
- Agree with the audit committee and board of directors about communication medium (video conferencing etc)
- Determine the extent of communication, allocating necessary resources and time required for preparing for these communications
- Determine the matters requiring communication

The communication with the audit committee and board of directors could extend and be extensive (compared to earlier periods communications), where the auditor’s work is impacted by matters such as:

- Circumstances (due to limited access or inability to perform procedures) leading to the limitation of scope, internal control modifications etc
- Going concern
- Subsequent events disclosure and accounting
- Areas involving subjectivity and requiring management estimations
- New key audit matters
What could be the impact of COVID-19 outbreak on materiality?

ISA 320, *Materiality in Planning and Performing an Audit*, deals with the auditor’s responsibility for applying the concept of materiality in planning and performing audits of financial statements.

The auditor’s determination of materiality is a matter of professional judgment, and is affected by the auditor’s perception of the financial information needs of users of the financial statements. Therefore, the auditor’s materiality has a financial statements user perspective.

The auditor is required to consider the impact of COVID-19 on materiality. The implications of COVID-19 may require companies to record additional amounts and/or provide non-standard disclosures in the financial statements. The auditor should take into account both quantitative and qualitative factors to consider how COVID-19 related amounts and/or disclosures are relevant to the financial information needs of the users of the audited company.

As a result of COVID-19, the auditor may be required to:

**Determine planning materiality**

The benchmarks and thresholds used in prior years for determining materiality may require reconsideration. This could be owing to changes in users expectations of materiality and changes in company’s financial position and performance (financial implications of COVID-19), compared to prior years.

**Determine separate lower materiality level**

As a result of COVID-19 the auditor may determine that there are certain classes of transactions, account balances or disclosures for which users of financial statements could be reasonably expected to be influenced by a small change in the amount and/or disclosure. For such classes of transactions, account balances or disclosures auditor may determine separate lower materiality levels.

For example, if certain financial statement line items are particularly important to a regulatory requirement or a debt covenant.

**Revise the materiality**

In view of uncertainty about future implications of COVID-19, the auditor may need to revise the materiality as a result of a change in circumstances that occur during the audit (for example, a decision to dispose of a major part of the company’s business), new information, or a change in the auditor's understanding of the company and its operations as a result of performing further audit procedures.

For example, during the audit, various additional adjustments and/or disclosures are provided in the financial statements. The financial results would likely to be substantially different from the initially shared period-end financial results that were used initially to determine materiality for the financial statements as a whole.

Further, if the risk assessment has been revised (under ISA 315), the audit materiality may also need to be revised.

The auditor should include in audit documentation the following amounts and the factors considered in their determination:

- Materiality for the financial statements as a whole;
- If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;
- Performance materiality; and
- Any revision to the above as the audit progressed.
Would COVID-19 related adjustments and disclosures in financial statements impact auditor’s application/selection of a benchmark?

The materiality is determined based on the benchmark such as profit before tax, revenue, gross profit, total equity, total assets etc. In certain cases non-IFRS performance measures such as EBITDA etc can also be used as materiality benchmark. The main benchmark used for profit-oriented companies is profit before/after tax. However, it is emphasized that there is no fit all benchmark.

The auditor should use a benchmark as per the nature of the company and the industry in which it operates and whether users focus on particular items in the financial statements. The appropriate benchmark would be the one that links to what the users are most concerned about in the financial statements.

Due to COVID-19, company may have incorporated significant adjustments in the current period. This could make the financial outlook of company different from prior periods. For example there could be a COVID-19 impacted company, which in earlier periods was making consistent profits, but has incurred loss or has a significant profit decline, in the current period.

The auditor while establishing an amount for overall materiality, may use prior period amounts, preliminary or estimated amounts, budgets, adjustments for significant changes in the circumstances of the company, and relevant changes of conditions in the industry or economic environment.

The auditor’s may be facing problem in determining appropriate materiality level due to significant adjustments incorporated in the current period financial statements.

Where the auditor has previously been using profit before/after tax as a benchmark, the auditor may consider using:

- **Normalized profit:** Profit before tax adjusted for significant nonrecurring items

- **Average profit:** Average profit before tax of prior periods

- **Other benchmark/s:** For example, though the scale of company’s business is largely the same but auditor may determine that adjusted profit may not be appropriate and consider using a different benchmark, such as total revenue, gross profit.

- **Liquidity/solvency concerns:** In circumstances when the company’s operating results are so poor that liquidity or solvency is a more critical concern, basing overall materiality on financial position (e.g., equity) may be more appropriate.
Audit Evidence

Would COVID-19 impact the auditor’s responsibility of obtaining sufficient and appropriate audit evidence?

ISA 500, Audit Evidence, deals with the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence. It is the responsibility of an auditor to obtain audit evidence before issuing their audit report. The auditor is also required to modify audit procedures to resolve inconsistency in, or doubts over reliability of, audit evidence.

The present lockdown situation (due to Covid-19 outbreak) may limit auditor’s mobility and access to clients data and place. This situation may impact the auditor’s ability to perform the audit procedures for obtaining audit evidence. Auditors may face time constraints in completing the audit and challenges in obtaining and evaluating the sufficiency and appropriateness of audit evidence, including:

- Limited availability of, or access to, company personnel
- Delays by management in responding to auditor’s inquiries
- Challenges in communicating with those charged with governance
- Challenges in access to, or communicating with third parties and other auditors

Importantly, travel restrictions and/or limited access do not diminish auditor’s responsibility of obtaining sufficient and appropriate audit evidence.

The auditor would be required to consider whether the audit evidence can be obtained through other ways (such as through use of technology). It is emphasized that greater use of technology, would require the auditor to assess both the sufficiency and appropriateness of the audit evidence produced.

Auditors may also consider the following matters in modifying audit procedures or designing new procedures:

- Enhancing direction and supervision of less experienced team members; and modifying the nature and extent of review of their work;
- Increasing the involvement of more senior or experienced members of the engagement team in performing procedures related to more complex issues;
- Involving - or increasing the involvement of - specialists or others with specialized skills and knowledge; and
- For engagements where other auditors are involved: Developing alternative approaches for direction and supervision where previous plans involved travel and in-person interactions (including considering use of technology).

The COVID-19 crisis may affect a company’s financial reporting processes and related controls, including in particular those relating to “closing the books” and preparation of financial statements. The risk of deficiencies in new, modified, or existing controls could increase for reasons such as lack of segregation of duties or lack of effective monitoring controls, which may give rise to increased risk of potential management override. As a result, auditor’s procedures to understand and test relevant controls may need to be reconsidered. In addition to performing procedures to understand new or modified processes and controls, auditors may need to design and perform new procedures, or modify previously planned procedures, to test new or modified implemented controls. For example, the auditor may need to design and perform procedures involving inspection and re-performance if observing real-time operation of controls is no longer possible.

The reliability of audit evidence would be influenced by source and nature of audit evidence and is dependent on the individual circumstances under which it is obtained. Accordingly, the auditor would be required to consider the reliability and quantity of audit evidence on case to case basis.

The auditor should also document the basis of its assessment and conclusion on the audit evidence in the audit file.
How auditor’s responsibility of obtaining audit evidence through physical verification of inventories would be impacted?

As noted above, the lockdown situation may impact the auditor’s ability to perform audit procedures, including attending physical verification of inventories.

For audited companies with period/year end of March 31, 2020, in most of the cases:
- Management would not have been able to conduct inventory count at the year/period end; and/or
- Auditor would have not been able to attend the physical inventory

ISA 501, Audit Evidence - specific considerations for selected items, provides guidance to auditors when physical counting cannot be performed or is impracticable. In such situations the auditor shall consider:

a) Conducting physical inventory count at a date, or dates, other than the date of the financial statements.

b) Performing alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory, if attendance at physical inventory counting is impracticable.

However, the auditor should engage with the audited company at the on-set. There would be no ‘one fit all’ approach towards physical inventory count at alternate dates and performance of alternate procedures would require auditor’s consideration on a client to client basis.

Attending physical inventory count at a date other than the date of the financial statements

The auditor may conduct physical inventory count at a date, other than the date of the financial statements. This may involve attending a physical count at a future date with a roll-back to the date of the financial statements. Similarly, if auditor had attended an interim physical count (for example on December 31, 2019), it may be possible to use those results and roll-forward to the balance sheet date.

The roll-back or roll-forward procedures should be performed to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are recorded properly.

The auditor as a roll-forward or roll-backward procedure would be required to reconcile inventory movements. The extent of this procedure would depend on the company’s accounting system, type of inventory and volume of transactions. Further, the assessment of the condition of inventory at the year end, which will depend on the typical life of the inventory.

The effectiveness of the alternative procedures that an auditor may perform is affected by the length of the period that the alternative procedures cover. In terms of the planned audit approach for physical inventory count, the auditor should consider the time criticality and quality of audit evidence.

Inventory under the custody and control of a third party

If inventory under the custody and control of a third party is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

- Request confirmation from the third party regarding the quantities and condition of inventory held on behalf of company.
- Perform inspection or other audit procedures appropriate in the circumstances.

Safety first

The auditor when deciding to attend inventory count should consider the safety of its staff and company’s personnel. Maximum efforts should be made to ensure safety of all, irrespective of the lack of formal restrictions on movement and any government safety instructions.
Maintaining professional skepticism

The auditor is responsible for maintaining professional skepticism throughout the audit. The exercise of professional skepticism is relevant in context of auditor’s inability to attend physical inventory count due to COVID-19 outbreak. The auditor should consider:

- Whether company’s accounting records and controls may have deteriorated as a consequence of COVID-19.
- Adequacy of additional controls implemented by the audited company regarding the security of physical inventory and its record.

What would be the auditor’s considerations when management reopening the inventory warehouse after easing of COVID-19 restrictions?

With government imposed restrictions, the audit client may have closed its inventory warehouse prior to the year end and it remained closed over that year end. This scenario would be mostly relevant to audit clients with March 2020 year end.

The auditor should consider performing inventory related audit procedures, including attending physical inventory count once management decides to reopen the warehouse. Auditor should discuss with management for performing a physical inventory count before starting the trading activities.

The extent to which this provides sufficient appropriate audit evidence relating to the existence of inventory held at the year end depends on whether, for example, evidence exists to demonstrate that no inventory has been removed or added over the period. The auditor would be required to assess the security controls implemented by the client during the warehouse closure period. This would include physical controls, such as security systems to prevent theft of inventory and security footages.

The auditor should consider the nature of inventory items to understand their condition. For certain inventory items the auditor might not be able to obtain sufficient appropriate audit evidence about the condition of these items at the year end. In such cases the auditor would be required to consider the implications on the auditor’s report.

What should be the auditor’s response when management refuses to allow auditor’s attendance to inventory count due to safety concerns?

In consideration of COVID-19 risks, management may disallow auditor’s attendance to the yearly inventory count. In such scenario, the auditor should:

- Discuss with management and those charged with governance about the possibility of conducting physical verification at a later date, once health risks are expected to be low.
- Not persist to attend management’s yearly inventory count, if management decides to perform physical inventory count and refuses to allow auditor’s attendance.

The auditor’s visit the company’s warehouse to conduct physical count related procedures when the relevant premises are closed and no staff are present would not provide audit evidence relating to inventory counting procedures. Further, due to sampling nature substantive evidence of auditor’s physical count, there would be limited evidence relating to the existence and condition of inventory. In such cases the auditor would be required to consider the implication of management refusal on the auditor’s report, and may modify opinion due to limitation of the scope.
How the auditor may respond when a significant delay is expected in the inventory count, after the year end?

At present there is uncertainty about the resumption of normal life and businesses. This uncertainty may lead to a significant delay in the inventory count, after company’s year end.

Company’s inventory count is an important control in many cases. For an auditor it provides audit evidence about the existence and condition of inventory at the balance sheet date.

In scenarios of expected significant delays, the auditor besides discussing with management regarding its plans and timelines for inventory count, should also consider the impact of delay on:

- Risk assessment and audit approach
- Alternate audit procedures

However, despite performing alternate procedures, in certain cases the auditor would find it difficult to obtain sufficient appropriate audit evidence relating to the existence and condition of inventory at the date of financial statements.

The auditor should also consider the implication on the auditor’s report, of significant delay in the inventory count.

What could be the implications on the auditor’s report in case the auditor has not been able to perform physical verification of inventories at the date of financial statements?

The audit evidence obtained by the auditor for the inventory count may impact the auditor’s report.

The implications on audit opinion due to auditors limitation to attend a physical inventory count could be significant where:

- Physical verification was required (Based on the materiality and nature of inventory items);
- Physical verification was time critical (Due to the nature of inventory); and
- Physical verification could not be performed due to lock down situation.

The auditor’s report will not need to be qualified for inventory count, where the auditor has sufficient and appropriate audit evidence through

- Attending physical inventory count at a date other than the date of the financial statements; and
- Performing alternative audit procedures regarding the existence and condition of inventory.

The auditor’s report of an existing client shall be modified (as per ISA 705) where the auditor has not been able to

- Attend physical inventory count; and
- Obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures.

Such modification would be in the form of a qualified opinion due to limitation of scope under ISA 705, where the inventory balances are material but not pervasive.

In case it is material and pervasive, disclaimer of opinion may be issued.

The incoming auditor’s report of a new audited company shall be modified (as per ISA 510) where the auditor has not been able to

- Attend physical inventory count; and
- Obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures.

Such modification would be in the form of a qualified opinion due to limitation of scope, where the inventory balances are material but not pervasive.

In case it is material and pervasive, disclaimer of opinion may be issued.
What would be the impact of COVID-19 on the auditor’s responsibility of obtaining audit evidence through external confirmations?

ISA 505 *External Confirmations*, addresses the auditor’s use of confirmation procedures to obtain audit evidence. An external confirmation is audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or through electronic or other medium.

The auditors commonly perform this audit procedure to confirm or request information regarding account balances and their elements. However, external confirmations need not be restricted to account balances only.

Further, the audit evidence would be more reliable if it is in the form of documentary external confirmations (whether paper or electronic form) received directly by the auditor from confirming parties.

Due to the travel restrictions and lockdown in Pakistan and many other countries, the auditor:

- May not be able to make requests for documentary external confirmations; or
- May not be able to obtain documentary responses to the external confirmations.

The auditor shall maintain control over external confirmation requests, including:

**Consideration of obtaining other than documentary external confirmations**

In case the auditor is not able to make requests for circulation of documentary external confirmations, consideration should be given to using secure systems to obtain the necessary evidence in place of a documentary copy.

An electronic confirmation process might incorporate various techniques for validating the identity of a sender of information in electronic form, for example, through the use of encryption, electronic digital signatures, and procedures to verify web site authenticity.

The auditor’s approach for circulating and obtaining responses to external confirmations would require consideration on a client to client basis.

**Authenticity of external confirmations**

The auditor should consider the authenticity of external confirmations, when information has been transformed from its original medium (for example, documents that have been scanned or otherwise transformed to electronic form).

The reliability of that information may depend on the controls over the information’s transformation and maintenance. The auditor may obtain audit evidence about the authenticity of electronic confirmations by:

- Testing controls over the transformation and maintenance of the information; or
- Performing additional substantive procedures to address the authenticity (for example, inspecting underlying original documents to validate the authenticity of information in electronic form).

**Evaluating the evidence obtained**

The auditor should evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence or whether further audit evidence is necessary.
When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request or providing requested information without exception
- A response deemed unreliable
- A nonresponse
- A response indicating an exception

The auditor shall for each non-response, perform alternative audit procedures to obtain relevant and reliable audit evidence.

**How auditor should respond when management refuses to allow to send a confirmation request, due to mobility and access restrictions?**

In case of management’s refusal to allow the auditor to send a confirmation request, the auditor should:

- Inquire management for the reasons for such refusal
- Seek audit evidence as to the validity and reasonableness of the reasons
- Consider the implication on risk of material misstatement (at assertion level)
- Modify planned audit procedures
- Perform alternate procedures

The alternate procedures similar to those appropriate for a non-response to a confirmation request to third party.

**What could be the implications on the auditor’s report for inability to circulate and/or receive appropriate response to external confirmations?**

The auditor shall determine the implications for the audit and the auditor’s opinion in accordance with ISA 705, where:

- Management’s refusal to allow the auditor to send a confirmation request is unreasonable; or
- The auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures.

Typically, if auditor is able to design and perform additional tests of those account balances, non-receipt of confirmations in and of itself should not result in a scope limitation. However, if auditor is unable to obtain sufficient audit evidence through review of the client books and records and is relying on receipt of audit confirmations as a key source of audit evidence, the non-receipt of those confirmations could result in a scope limitation (where balances are material to the financial statements).
How COVID-19 would affect the auditor’s responsibility to audit the accounting estimates?


Companies are expected to be impacted financially as a consequence of COVID-19. The assumptions and data supporting certain accounting estimates could be impacted by the consequences of COVID-19. The accounting estimates and fair valuation are expected to be a significant area of focus for both preparers and auditors.

Management is responsible for making the accounting estimates included in the financial statements. Examples of specific areas include:

- Going concern assessment and support
- Tangible and intangible asset impairments
- Financial assets expected credit losses
- Realisability of deferred tax assets
- Variations in leases and revenue contracts
- Valuation of employee termination benefits
- Insurance recoveries due to business disruptions/lockdown
- Loss contingencies

While auditing accounting estimates, the auditor normally should consider, among other things, the company’s historical experience in making past estimates as well as the auditor’s experience in the industry. However, changes in facts, circumstances, or a company’s procedures may cause factors different from those considered in the past to become significant to the accounting estimate.

The auditor should perform substantive audit procedures to ensure that:
- All accounting estimates that could be material to the financial statements have been developed by management.
- Management developed accounting estimates (including fair value accounting estimates) are reasonable.
- The disclosures of accounting estimates in the financial statements are adequate, based on the applicable financial reporting framework.

The auditor should obtain written representations from management regarding the key factors and assumptions. Further, the auditor based on significance and relevance of the accounting estimate to company’s financial statements and going concern should also consider obtaining a written representation as to whether the assumptions appropriately reflect management’s intent and ability to carry out specific courses of action relevant to any fair value measurements or disclosures.

The auditor would also be required to consider the implications on the auditor’s report if sufficient disclosures have not been provided or where the disclosure of estimation uncertainty is inadequate in light of the circumstances and facts involved. The auditor may need to issue a modified opinion in accordance with ISA 705.
How auditor should evaluate the reasonableness of the accounting estimates?

To account for the financial reporting implications of COVID-19, companies may be making new accounting estimates or revising the existing estimates based on new information. The auditor would be considering the reasonableness of these accounting estimates.

Auditor should obtain an understanding of how management developed the estimate. This understanding should be used for developing the approach for evaluating the reasonableness, and auditor should consider using one or combination of the following approaches:

- Review and test the process used by management to develop the estimate
- Develop an independent expectation of the estimate to corroborate the reasonableness of management’s estimate
- Review subsequent events or transactions occurring prior to the date of the auditor’s report

In evaluating the reasonableness of an estimate, the auditor should normally concentrate on key factors and assumptions that are:

- Significant to the accounting estimate
- Sensitive to variations
- Deviations from historical patterns
- Subjective and susceptible to misstatement and bias

When assessing audit differences between estimates best supported by the audit evidence and the estimates included in the financial statements, the auditor should consider whether such differences, even if they are individually reasonable, indicate a possible bias on the part of the company’s management.

The auditor should also perform a retrospective review of significant accounting estimates reflected in the financial statements of the prior year to determine whether management judgments and assumptions relating to the estimates indicate a possible bias on the part of management. With the benefit of hindsight, a retrospective review should provide the auditor with additional information about whether there may be a possible bias on the part of management in making the current year estimates.
Going Concern

What could be the impact of COVID-19 on auditor’s and management’s responsibilities relating to going concern assessment?

ISA 570, Going Concern, deals with the auditor’s responsibilities in relation to management’s use of the going concern assumption in the preparation of the financial statements.

The auditor is required to:

- Obtain audit evidence
- Conclude on going concern
- Consider implication on audit report

The concept of going concern would become more relevant in times of economic consequences of COVID-19.

The COVID-19 outbreak and its adverse consequences do not change either management’s or the auditor’s responsibility relating to the going concern assumption. The events after the COVID-19 pandemic and the outlook for the future challenges would need to be considered by management and auditors correspondingly in meeting those responsibilities.

Adverse financial impacts on companies

The outcome of COVID-19 may adversely impact the company causing a deterioration in operating results and financial position. As a result of the outbreak, the ability of a company to continue as a going concern may be affected by factors such as:

- Industry and geographic area in which the company operates
- Industry and geographic area in which the customers or suppliers operate
- Availability of resources at economical terms
- Financial health of customers and suppliers of the company
- Accessibility to financing that is available for the company
- Non-compliance with capital or other statutory requirements

The auditor should consider whether there are events or conditions that may cast significant doubt about the going concern assumption. This consideration should be throughout the audit, when:

- Planning the audit
- Performing audit procedures;
- Evaluating the results (the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements)
Auditor may be required to obtain more audit evidence

As a result of COVID-19 adverse impact on companies, it is expected that auditor’s going concern work would be more extensive. The auditor may be required to:

- Determine whether management has already performed a preliminary assessment of the company’s ability to continue as a going concern
- Evaluate the reliability of the underlying data generated and assumptions used in preparing the cash flow forecast
- Continue performing going concern related procedures till point of signing the auditor’s report
- Request written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans

More evidence may be required from management to support its assessment of company’s ability to continue as a going concern. The auditor should consider all relevant factors and evaluate the business plans and forecasts prepared by management to support its going concern assessment.

If required, the auditor should set a clear expectation with the audited company of the additional time that will be needed to complete the audit in this area to the high standard that users of the financial statements will expect.

Focus of the auditor

In consideration of uncertainty and unfolding events, the auditor should remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the company’s ability to continue as a going concern.

The focus of the auditor should be that of obtaining sufficient appropriate evidence to evaluate the management’s assessment rather than rectifying the lack of analysis by management by producing an auditor’s own detailed analysis.

Specific written representations

The auditor should also obtain written representations about company’s ability to continue as a going concern. The auditor may need to request written confirmations, including terms and conditions, from those third parties and to obtain evidence about their ability to provide support. Further, the auditor may need to obtain written representations from management regarding their future action plans and the feasibility of the plans.

Management’s inability or refusal to perform assessment

Situations may arise when the auditor may request management to make an assessment, or extend their original assessment of going concern. If management refuse to make, or extend, an assessment of going concern the auditor will consider the implications for the auditor’s report.
How auditor should evaluate forecasts prepared by management to support the company’s ability to continue as a going concern?

An important component of the going concern assessment relates to an company’s ongoing forecasts and budgeting.

ISA 570 requires the auditor to perform additional audit procedures when events or conditions are identified that may cast significant doubt on the company’s ability to continue as a going concern.

Where the company has prepared a forecast, the auditor shall analyse the forecast. Because the forecast prepared by management would be a significant factor supporting company’s ability to continue as going concern. The auditor in its analysis of forecast shall:

1. Evaluate the reliability of the underlying data generated to prepare the forecast
2. Determine whether there is adequate support for the assumptions underlying the forecast

In evaluating management’s assessment, the auditor considers the process management followed to make its assessment, the assumptions on which the assessment is based and management’s plans for future actions. In considering alternative strategies that management may have to overcome any adverse factors, considerations include their effectiveness and the ability of management to execute them.

Analysis of cash flow may be a significant factor in considering the future outcome of events or conditions in the evaluation of management’s plans for future action. Assumptions that have been used in prior years may no longer be relevant and may need to be adjusted to account for the pressures of the current environment. Factors that may be relevant in evaluating forecasts prepared by management include:

- Whether senior management and those charged with governance have been appropriately involved and have given appropriate attention to forecasts;
- Whether the assumptions used in the forecasts are consistent with assumptions that have been used in asset valuations and models for impairment;
- Whether the forecasts have been prepared on a monthly basis and, if so, how the forecasts reflect expected payment patterns (e.g., quarterly cash outflows such as tax installments, and variable cash inflows such as expected proceeds from the sale of assets);
- Whether the forecasts indicate months of insufficient cash and, if so, management’s plans to deal with any shortfalls;
- Whether forecasts reflect an inappropriate management bias, in particular as broadly compared to others in a particular industry;
- How management’s budget for the current period compares with results achieved to date;
- Whether the forecasts consider potential losses of revenue, including whether an inability of an company to obtain letters of credit affects its international trade;
- Whether increases in the cost of borrowing have been factored into management’s analysis, including potential increases in margin sought by banks and the effect of alternative sources of financing;
- Whether the forecasts account for trends typically noted in recessionary periods, such as reduced revenues, increased bad debts, and extended credit terms to customers;
- Whether management has performed an appropriate sensitivity analysis, such as considering the effect of the loss of key customers or key suppliers;
- How the forecast deals with asset realizations, including whether these realizations are practicable and realistic in amount; and
- Whether the forecasts imply any future concerns over the company’s ability to meet debt covenant requirements.

(Above points extracted from IAASB Staff Practice Alert ‘Audit Considerations in Respect of Going Concern in the Current Economic Environment’ issued in January 2009)
What should be period of management’s assessment?

The period of time that an auditor should consider for management’s assessment of going concern assessment is the period of time required by the:
- Applicable financial reporting framework;
- Relevant law or regulation; or
- If no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

International Financial Reporting Standards (under IAS 1, Presentation of Financial Statements) require that management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date.

ISA 570 requires the auditor to consider the same period as that used by management in making its assessment under the applicable financial reporting framework; however, if this assessment covers less than twelve months from the balance sheet date, the auditor is required to ask management to extend its assessment period to twelve months from the balance sheet date.

How an auditor should proceed if management is unable to assess going concern due to continued uncertainty?

ISA 570 requires the auditor to perform additional audit procedures when events or conditions are identified that may cast significant doubt on the company’s ability to continue as a going concern.

As additional audit procedures the auditor shall request management to make an assessment of company’s ability to continue as going concern and evaluate management’s plans for future actions in relation to its going concern assessment.

Prevailing uncertainty about the future economic outlook, possible government actions and economic implications would make it difficult for management to develop business plans, projections and forecasts to support the company’s going concern. However, the auditor is required to assess management’s assessment of going concern. Management’s inability to develop a business plan due to Covid-19 related uncertainty, does not relieve the auditor of its responsibility to assess appropriateness of going concern.

In such scenarios, the auditor should consider:

- Requesting management to develop reasonable and supportable business plans, projections or forecasts to support the company’s ability to continue as a going concern.
- Delaying the issuance of auditors report, if possible, until reasonable and supportable business plans, projections or forecasts to support the company’s ability to continue as a going concern can be developed by management.
- Impact on the auditor’s report due to management’s inability to develop reasonable and supportable business plans, projections or forecasts.

It is emphasized, that the focus of the auditor should be that of obtaining sufficient appropriate evidence to evaluate the management’s assessment rather than rectifying the lack of analysis by management by producing an auditor’s own detailed analysis.

The auditor should also consider that management’s assumptions are just that and, although making some of these evaluations or forecasts might be difficult to do in our current environment, in many cases, management’s best estimate would be acceptable and would not result in a scope limitation.
The Impact of COVID-19 on Audit
A Guidance for Auditors

What could be the impact of COVID-19 on company’s ability to continue as a going concern and auditor’s report?

If the auditor agrees with the basis of preparation of the financial statements, or that there are sufficient disclosures in relation to events or conditions which may cast significant doubt on the company’s ability to continue as a going concern, the auditor issues an unmodified report. In such scenario auditor may consider including a paragraph to highlight the material uncertainty related to going concern. The objective would be to draw attention of users of financial statements to the disclosures in the financial statements wherein management explained the material going concern uncertainty and the factors through which this uncertainty has been mitigated.

The auditor should apply professional skepticism when management and those changed with governance after consideration of all factors have determined that the consequences of COVID-19 are not reasonably expected to have any material financial impact on the audited company and that no material uncertainties related to going concern exist for the company.

If the auditor does not agree with the basis of preparation of the financial statements, or that there are sufficient disclosures in relation to events or conditions which may cast significant doubt on the company’s ability to continue as a going concern, the auditor issues a modified audit report.

<table>
<thead>
<tr>
<th>Auditor’s conclusion</th>
<th>Consequences on the auditor’s report</th>
</tr>
</thead>
</table>
| When the use of the going concern basis of accounting is appropriate but events or conditions were identified that may cast doubt on the company’s ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists | • An unmodified opinion  
• Report as a KAM (Applicable to the audit of listed company) |

When the use of the going concern basis of accounting is appropriate but a material uncertainty exists related to events or conditions that may cast significant doubt on an company’s ability to continue as a going concern and disclosures in the financial statements are adequate

<table>
<thead>
<tr>
<th>Auditor’s conclusion</th>
<th>Consequences on the auditor’s report</th>
</tr>
</thead>
</table>
| When the use of the going concern basis of accounting is appropriate but a material uncertainty exists related to events or conditions that may cast significant doubt on an company’s ability to continue as a going concern and disclosures in the financial statements are adequate | • An unmodified opinion  
• A section with a new required heading Material Uncertainty Related to Going Concern, with a reference to the note in the financial statements that describes the material uncertainty, and a statement that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company’s ability to continue as a going concern and that the auditor’s opinion is not modified in respect of the matter. (Paragraph 22 of ISA 570)  
• Reference the Material Uncertainty Related to Going Concern in the KAM section (Applicable to the audit of listed company)  
  “In addition to the matter described in the Material Uncertainty Related to Going Concern section we have determined the matters described below to be the key audit matters to be communicated in our report.”  
  [Description of each key audit matter] |
<table>
<thead>
<tr>
<th>Auditor’s conclusion</th>
<th>Consequences on the auditor’s report</th>
</tr>
</thead>
</table>
| When the use of the going concern basis of accounting is appropriate but a material uncertainty exists related to events or conditions that may cast significant doubt on an company’s ability to continue as a going concern and disclosures in the financial statements are inadequate or omitted. | - A qualified opinion or an adverse opinion in respect of the inadequate disclosures  
- An indication that there is a material uncertainty in respect of going concern  
- A description of this circumstance in the Basis for Qualified/Adverse Opinion section  
- Reference the Basis for Qualified/Adverse Opinion in the KAM section  
(Paragraph 23 of ISA 570) |
| If the use of the going concern basis of accounting is inappropriate (but financial statements have been prepared on going concern basis) | - An adverse opinion  
- A description of this circumstance in the Basis for Adverse Opinion section  
- Reference the Basis for Adverse Opinion in the KAM section (KAM applicable to listed company auditor’s report)  
(Paragraph 21 of ISA 570) |
| Where use of the going concern assumption is inappropriate. | - An unmodified opinion  
- An emphasis of matter paragraph in accordance with ISA 706 (Revised) to draw the user’s attention to that alternative basis of accounting and the reasons for its use  
(Paragraph A27 of ISA 570) |
The Impact of COVID-19 on Audit
A Guidance for Auditors

Subsequent Events

How COVID-19 related events may impact the audits of financial statements of December 2019 and March 2020 (onwards) year/period ends?

ISA 560. Subsequent Event, outlines the auditor’s responsibility in relation to subsequent events.

It would be management’s responsibility to consider and incorporate the impact of subsequent events in the financial statements. Auditor’s reasonability of determination of subsequent events is independent of management since the auditor needs to reach an opinion independent from that of management.

The auditor should consider if the impact of the COVID-19 event requires adjustment to or disclosure in the financial statements. Further, auditor should also evaluate whether these subsequent events impact the appropriateness of the going concern basis of accounting.

Possible impact of subsequent events on December 2019 year end audits

For the December 2019 year end audit of financial statements, it is highly likely that the COVID-19 related subsequent events would be non-adjusting events.

The non-adjusting subsequent events, for few companies, may be of such a nature that financial statement disclosures are required to ensure that the financial statements are not misleading. In these situations, financial statements need to include disclosure of the following:

- The nature of the event(s)
- An estimate of the financial statement effect of the event(s), or a statement that the estimate cannot be made

Possible impact of events on March 2020 year end audits

The COVID-19 related events may have significant implications for January 2020 year/period ended (and onwards) audit clients. More specifically, the auditors of companies with March year end and onwards would be required to carefully consider the impact of COVID-19 on companies financial statements.

The auditors would be required to perform audit procedures such as:

- Obtaining understanding of management’s procedures for identification of subsequent events
- Inquiring management and those charged with governance about subsequent events and their planned actions
- Reading minutes of meetings
- Reading latest interim financial statements, budgets, cash flow forecast and other related management reports
How auditor may respond to the COVID-19 related subsequent events?

The extent of auditor’s response to the possible subsequent events emanating from COVID-19 would depend on various factors, including the nature of clients business, potential impact of subsequent events on clients business and status of the audit.

Status of audit

The company’s year end would be generally indicative of the status of the audit. To analyse the impact of COVID-19 and auditor’s response to the related subsequent events, following broad scenarios can be considered for further discussion.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Financial statements year end</th>
<th>Auditor’s responsibility</th>
<th>Auditor’s report has been issued</th>
<th>Auditor’s report has not been issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the impact of the COVID-19 event:</td>
<td>This scenario could generally pertain to the audited financial statements for the year ended December 2019 and earlier periods.</td>
<td>The auditor has no obligation to perform audit procedures after the financial statements have been issued. However, still auditor’s obligation to perform audit procedures arises if the auditor:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Became known to the auditor after the financial statements has been issued; and</td>
<td></td>
<td>- After the issuance of financial statements;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- May have caused an amendment to the auditor’s report, if this event been known at the date of the auditor’s report.</td>
<td></td>
<td>- Becomes aware of a fact about a subsequent event; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- This fact is of such nature that if known at the date of auditor’s report may have caused auditor to amend the report.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The auditor:

- Should perform audit procedures; and
- Consider amending the auditor’s report or issuing a new auditor’s report on amended financial statements. In the amended/new report include an Emphasis of Matter paragraph that explains that the auditor’s procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

If management does not take the necessary steps to ensure that recipients of the previously issued financial statements is informed of the situation and does not amend the financial statements where the auditor believes they need to be amended, notify management and those charged with governance, that the auditor will seek to prevent future reliance on the auditor’s report.

If management still does not take these necessary steps to inform recipients of F/S, seek legal advice.

Please refer to ISA 560 paragraphs 14 to 17 for more details.
## The Impact of COVID-19 on Audit
### A Guidance for Auditors

### Financial year of company ended before COVID-19 outbreak and auditor’s report has been issued

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Financial statements year end</th>
<th>Auditor’s responsibility</th>
<th>Auditor’s response</th>
</tr>
</thead>
</table>
| If the impact of Covid-19 events became known to the auditor: | This scenario could generally pertain to the audited financial statements for the year ended December 2019 and earlier periods. | The auditor has no obligation to perform audit procedures after the financial statements have been issued. However, still auditor’s obligation to perform audit procedures arises if the auditor: | The auditor:  
- Should perform audit procedures; and  
- Consider amending the auditor’s report or issuing a new auditor’s report on amended financial statements. In the amended/new report include an Emphasis of Matter paragraph that explains that the auditor’s procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.  

If management does not amend the financial statements in circumstances where the auditor believes they need to be amended:  
- Notify management and those charged with governance to not to issue financial statements the to third parties before the necessary amendments have been made  
- If the financial statements are subsequently issued without the amendments seek legal advice  

*Please refer to ISA 560 paragraphs 10 to 13 for more details.* |

### Financial year of company ended before COVID-19 outbreak and auditor’s report has not been issued

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Financial statements year end</th>
<th>Auditor’s response</th>
</tr>
</thead>
</table>
| If the impact of the COVID-19 event: | This scenario could generally pertain to the audit of financial statements companies with year ends before March 2020. | In such scenarios the auditor should perform audit procedures to:  
- Obtain audit evidence about identification of all subsequent events requiring adjustment or disclosure in the financial statements;  
- Ensure management has made appropriate adjustments or disclosures in the financial statements.  

Auditor should also obtain written representations from management about subsequent events.  

*Please refer to ISA 560 paragraphs 6 to 9 for more details.* |
### Financial year of company ended after COVID-19 outbreak

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Financial statements year end</th>
<th>Auditor’s response</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the impact of the COVID-19 event:</td>
<td></td>
<td>In such scenarios the auditor should perform audit procedures to:</td>
</tr>
<tr>
<td>▪ Existed before the date of financial statements; and</td>
<td>This scenario could generally pertain to the audit of financial statements of companies with March 2020 year ends and onwards.</td>
<td>▪ Obtain audit evidence about identification of all subsequent events requiring adjustment or disclosure in the financial statements;</td>
</tr>
<tr>
<td>▪ Has a material financial impact on audit client’s business.</td>
<td></td>
<td>▪ Ensure management has made appropriate adjustments or disclosures in the financial statements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Auditor should also obtain written representations from management about subsequent events.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Please refer to ISA 560 paragraphs 6 to 9 for more details.</td>
</tr>
</tbody>
</table>
Written Representations

Would COVID-19 related events and circumstances require auditor to obtain ‘specific’ written representations from management?

ISA 580, Written Representations, deals with the auditor’s responsibility of obtaining written representations from management. These are necessary information that the auditor requires in connection with the audit of the company's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence.

In view of COVID-19 implications, management could be required to make significant judgments and estimates resulting in significant recording of adjustments and provision of non-standard disclosures in financial statements. Similarly with strained financial circumstances, management may be making disclosures of intentions and the company's ability to continue as a going concern. Further, there could be a possibility where management has modified the internal control.

Theses circumstances and events would warrant additional written representations from management. An auditor should have the flexibility to include “specific” representations in the management representation letter if such inclusion is important in the auditor's view.

The auditor would also be expected to apply professional skepticism and consider the reliability of representations in terms of:

- Inconsistencies with other forms of evidence
- Concerns about the competence, integrity, ethical values or diligence of management

The date of the written representations should be as of the date of the auditor's report on the financial statements. The written representations should be for all financial statements and period(s) referred to in the auditor’s report.

Should the auditor consider written representations as sufficient appropriate audit evidence on their own?

The auditor is reminded that although written representations would be providing necessary audit evidence, they complement other auditing procedures and would not be providing sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, obtaining reliable written representations should not affect the nature or extent of other audit procedures that the auditor is required to perform for obtaining audit evidence about the fulfillment of management's responsibilities or about specific assertions.
What could be the impact on auditor’s report, if management does not provide reliable written representations or refuses to provide ‘specific’ written representations?

The auditor may be required to obtain specific written representations, relating to management actions and assertions.

### Written representations are not reliable

Written representations may not be reliable, when auditor:

- Identifies inconsistencies between one or more written representations and audit evidence; and
- Concludes that the written representations are not reliable.

If this is the case, the auditor should take appropriate action, including:

- Considering revision of the risk assessment;
- Performing further audit procedures to respond to revised risk;
- Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general;
- Determining the possible effect on the opinion in the auditor’s report in accordance with ISA 705.

### Written representation about management responsibilities

Where management does not provide written representations about its responsibility for:

- Preparation and fair presentation of financial statements;
- Design, implementation and maintenance of internal control relevant for preparation and presentation of fair presentation of financial statements;
- Provision of information and access as per the terms of engagement letter; or
- Recording of all transactions in books of account.

### Requested written representation not provided

Where management has not provided one or more of the requested written representations it constitutes a limitation on the scope of the audit.

The refusal to provide written representations would imply management’s unwillingness to accept responsibility and accountability for the financial statements.

The auditor should:

- Discuss the matter with management and those charged with governance;
- Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
- Take appropriate actions, including determining the possible effect on the opinion in the auditor’s report in accordance with ISA 705 or consider withdrawing from the engagement.

### Impact on auditor’s report

**Written representations are not reliable**

Auditor should consider issuing a modified opinion:

- Qualified opinion
- Disclaimer of opinion

*For further details pls see paragraphs 16-18 of ISA 580 and paragraphs 7, 9 and 10 of ISA 705 (Revised)*

**Written representation about management responsibilities**

Auditor should disclaim the opinion

*For further details pls see paragraph 20 of ISA 580*

**Requested written representation not provided**

Auditor should consider issuing a modified opinion:

- Qualified opinion
- Disclaimer of opinion

*For further details pls see paragraph 19 of ISA 580 and paragraphs 7, 9 and 10 of ISA 705 (Revised)*
Auditor’s Reporting

What is the general guidance about audit opinions?

The ISAs, related to auditor’s conclusion and reporting, set out auditor’s responsibility of forming audit opinions based on the audit evidence obtained during the course of the audit.

Accordingly, differences in auditors’ judgment, as well as result of audit required in the specific circumstances, will influence the auditor’s reporting.

Auditor determines the appropriate opinion depending on how material or pervasive the issues identified during the audit are to the reader’s understanding of the financial and, where applicable, non-financial information.

Has the auditor identified any issues during the audit that are material or pervasive and will affect reader’s understanding of the financial and, where applicable, non-financial information?  

<table>
<thead>
<tr>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor expresses and unmodified opinion</td>
<td>Auditor expresses a modified opinion</td>
</tr>
</tbody>
</table>

Limitation in scope

- Auditor has not obtained sufficient appropriate audit evidence about an issue
  - Limitation is pervasive to understanding the financial and/or non-financial information

Misstatement

- Auditor concludes that there is a misstatement in the financial and/or non-financial information
  - Misstatement is material to understanding the financial and/or non-financial information
  - Misstatement is pervasive to understanding the financial and/or non-financial information

Disclaimer of opinion
Qualified opinion
Adverse opinion

Has the auditor identified any matters that, although appropriately presented or disclosed in the financial and, where applicable, non-financial information, are of such importance that they are fundamental to the reader’s understanding of the financial and, where applicable, non-financial information?

<table>
<thead>
<tr>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>No “emphasis of matter” paragraph</td>
<td>Auditor includes an “emphasis of matter” paragraph</td>
</tr>
</tbody>
</table>

Has the auditor identified any other matter that is, in the auditor’s judgement, relevant to the reader’s understanding of the financial and, where applicable, non-financial information but not appropriately presented or disclosed?

<table>
<thead>
<tr>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>No “other matter” paragraph</td>
<td>Auditor includes an “other matter” paragraph</td>
</tr>
</tbody>
</table>
What could be the possible implications of COVID-19 related matters on the auditor’s report?

The ISAs, related to auditor’s conclusion and reporting setout auditor’s responsibility of forming audit opinions based on the audit evidence obtained during the course of the audit.

The COVID-19 consequences would affect companies both financially and operationally. The financial position, performance and cashflows may be impacted adversely. On the operational side companies may not be able to produce goods or render services or complete the necessary procedures and documentation as per policies and practices.

The travel restrictions along-with operational and financial implications for audited companies would require auditor to obtain audit evidence through alternate procedures. Accessing client books and records may present hurdles for some auditors, especially in cases where clients still maintain mostly paper records. The reliance on controls would be limited incases where audits are performed remotely. Further, going concern assessment and related audit procedures would be one of the key focus area of auditors.

The auditor’s opinion may accordingly be impacted by the evolving and challenging envoirment. Situations may involve inability to perform procedures, management’s inability to provide necessary audit evidence, management’s refusal to allow performance of additional procedures and going concern uncertainties.

The COVID-19 implications would require auditor to consider their impact on the audit evidence and opinion. Compared to prior years, the auditor may be required to issue modified opinion or highlight going concern uncertainty for audited company.

<table>
<thead>
<tr>
<th>Material uncertainty related to going concern</th>
<th>Emphasis of matter paragraph</th>
</tr>
</thead>
<tbody>
<tr>
<td>The auditors may be required to include a separate section “Material Uncertainty Related to Going Concern” in the auditor’s report.</td>
<td>The auditors may be required to include 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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Qualified opinion</th>
<th>Qualified opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>In context of COVID-19, the auditor may be required to include a qualified opinion in respect of:</td>
<td>The auditor may be required to include a qualified opinion, because of scope limitation when unable to obtain sufficient appropriate audit evidence.</td>
</tr>
<tr>
<td>▪ Unreasonable or incomplete accounting estimates</td>
<td>For instance, due to the limitation of scope physical inventory count could not be attended in person.</td>
</tr>
<tr>
<td>▪ Inadequate disclosures of information in the financial statements</td>
<td></td>
</tr>
<tr>
<td>▪ Going concern uncertainties in the financial statements</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adverse opinion</th>
<th>Disclaimer of opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>The auditor may be required to include an adverse opinion because of the significance of the matter related to COVID-19 is such that financial statements do not give a true and fair view.</td>
<td>The auditor may be required to include a disclaimer of opinion:</td>
</tr>
<tr>
<td></td>
<td>▪ Because of multiple uncertainties the auditor is unable to form an opinion.</td>
</tr>
<tr>
<td></td>
<td>▪ Uncorrected misstatement in Other Information is such that casts doubt about integrity of management and those charged with governance</td>
</tr>
</tbody>
</table>
Below table summarizes, some of the common expected matters that could trigger issuance of modified audit opinions.

<table>
<thead>
<tr>
<th>Matter</th>
<th>Auditor’s opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unable to observe counting of physical inventory due to management’s refusal or specific circumstances (i.e. Inability to obtain sufficient appropriate audit evidence) and obtain sufficient appropriate audit evidence through alternative procedures</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Disclaimer of opinion&lt;br&gt;Paragraphs 7(b), 9, A8, A9 and A12 of ISA 705</td>
</tr>
<tr>
<td>Unable to circulate written confirmations due to management’s refusal or specific circumstances (i.e. Inability to obtain sufficient appropriate audit evidence) and obtain sufficient appropriate audit evidence through alternative procedures</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Disclaimer of opinion&lt;br&gt;Paragraphs 7(b), 9, A8, A9 and A12 of ISA 705</td>
</tr>
<tr>
<td>Unable to obtain sufficient appropriate audit evidence about item/element of financial statements due to destruction of record or government restrictions (i.e. Inability to obtain sufficient appropriate audit evidence)</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Disclaimer of opinion&lt;br&gt;Paragraphs 7(b), 9, A8, A9 A10 of ISA 705</td>
</tr>
<tr>
<td>Selection of accounting policy is not appropriate or application of selected policy is not appropriate (i.e. financial statements are materially misstated)</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Adverse opinion&lt;br&gt;Paragraphs 7(a), 8, A4 to A6 of ISA 705</td>
</tr>
<tr>
<td>Inadequate disclosures of information (such as estimation uncertainty) in the financial statements (i.e. financial statements are materially misstated)</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Adverse opinion&lt;br&gt;Paragraphs 7(a), 8, A7 of ISA 705</td>
</tr>
<tr>
<td>Group engagement team’s inability to obtain sufficient appropriate audit evidence of the significant component due to restricted access by management (i.e. Inability to obtain sufficient appropriate audit evidence)</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Disclaimer of opinion&lt;br&gt;Paragraphs 13 &amp; A15 of ISA 600</td>
</tr>
<tr>
<td>Consolidated financial statements materially misstated due to the non-consolidation of a subsidiary (i.e. financial statements are materially misstated)</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Adverse opinion&lt;br&gt;Illustration 2, ISA 705</td>
</tr>
<tr>
<td>Group engagement team’s unable to obtain sufficient appropriate audit evidence about a component from the component auditor and also unable to obtain audit evidence through alternative procedures (i.e. financial statements are materially misstated)</td>
<td>▪ Qualified opinion&lt;br&gt;▪ Adverse opinion</td>
</tr>
<tr>
<td>Matter</td>
<td>Auditor’s opinion</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Use of the going concern assumption is appropriate, though a material uncertainty exists about ability to continue as going concern. However, adequate disclosure about material uncertainty is not made in the financial statements</td>
<td>- Qualified opinion</td>
</tr>
<tr>
<td></td>
<td>- Adverse opinion</td>
</tr>
<tr>
<td></td>
<td>- Paragaphs 23 of ISA 570</td>
</tr>
<tr>
<td>Use of the going concern assumption is inappropriate, still financial statements prepared on going concern basis.</td>
<td>- Adverse opinion</td>
</tr>
<tr>
<td></td>
<td>- Paragraphs 21 of ISA 570</td>
</tr>
<tr>
<td>Use of the going concern assumption is inappropriate and financial statements are not prepared on a going concern basis. A suitable alternative basis and appropriate disclosures are included in the financial statements.</td>
<td>- Emphasis of matter</td>
</tr>
<tr>
<td></td>
<td>- Paragraphs A27 of ISA 570</td>
</tr>
<tr>
<td>Use of the going concern basis of accounting is appropriate but a material uncertainty exists related to events or conditions that may cast significant doubt on an company’s ability to continue as a going concern and disclosures in the financial statements are adequate</td>
<td>- Material uncertainty related to going concern paragraph</td>
</tr>
<tr>
<td></td>
<td>- Paragraphs 22 of ISA 570</td>
</tr>
<tr>
<td>Written representation about management responsibilities are not reliable or not provided</td>
<td>- Disclaimer of opinion</td>
</tr>
<tr>
<td></td>
<td>- Paragraph 19 of ISA 580</td>
</tr>
<tr>
<td>Written representations other than management responsibilities are not reliable</td>
<td>- Qualified opinion</td>
</tr>
<tr>
<td></td>
<td>- Disclaimer of opinion</td>
</tr>
<tr>
<td></td>
<td>- Paragraph 18 of ISA 580</td>
</tr>
<tr>
<td>Requested written representation other than management responsibilities are not provided</td>
<td>- Qualified opinion</td>
</tr>
<tr>
<td></td>
<td>- Disclaimer of opinion</td>
</tr>
<tr>
<td></td>
<td>- Paragraph 20 of ISA 580</td>
</tr>
<tr>
<td>Company’s change in accounting policy is appropriate with which auditor concurs</td>
<td>- Emphasis of matter paragraph</td>
</tr>
<tr>
<td></td>
<td>- Paragraph 8 of ISA 706</td>
</tr>
<tr>
<td>Company’s prior year financial statements audited by another auditor</td>
<td>- Other matter paragraph</td>
</tr>
<tr>
<td></td>
<td>- Paragraph 10 of ISA 706</td>
</tr>
<tr>
<td>A significant subsequent event that occurs between the date of the financial statements and the date of the auditor’s report</td>
<td>- Emphasis of matter paragraph</td>
</tr>
<tr>
<td></td>
<td>- Paragraph A5 of ISA 706</td>
</tr>
<tr>
<td>A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position</td>
<td>- Emphasis of matter paragraph</td>
</tr>
<tr>
<td></td>
<td>- Paragraph A5 of ISA 706</td>
</tr>
</tbody>
</table>

* Paragraph references are of ISA 570 (Revised), ISA 705 (Revised) and ISA 706 (Revised)
What would be the impact of COVID-19 on auditor’s reporting of Key Audit Matters?

ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, deals with the auditor’s responsibility to communicate Key Audit Matters (KAMs) in the auditor’s report of listed companies. The overall objective of communicating KAMs is to provide insight to the users of the financial statements as to the most significant and/or challenging aspects of the audit for the current period.

Management may be responding to COVID-19 related challenges through different strategies and activities. In current period, auditor’s attention and audit work would involve previously known matters as well as emerging changes due to COVID-19. For example, management may be required to perform a detailed assessment of company’s going concern, incorporate new or revised accounting estimates, perform impairment testing or make additional non-standard disclosures in the financial statements.

The auditors of listed companies should consider KAMs by evaluating the impact of the interruption and economic meltdown caused by COVID-19 on the financial statements. The auditors may be required to perform additional audit work for determining and communicating KAMs in the auditor’s report to cover the impact of COVID-19 outbreak. For instance to:

- Describe the approach for audit due to restrictions in mobility and access
- Explain that there is no material uncertainty or no going concern uncertainty
- Reassessment of company’s risk and materiality

The auditor should be aware that **KAM is not**:

- A substitute of reporting of material uncertainty related to going concern
- A substitute of modified opinion
- A substitute of disclosures in financial statements
- A separate opinion on other regulatory matters
- An implication that a matter has not been resolved by the auditor

Can the auditor report COVID-19 related going concern matter as a KAM?

In context of COVID-19 or other circumstances and events, going concern is expected be an area of discussion and focus of coming audits.

KAM is not a substitute for reporting a material uncertainty related to going concern. In case of materiality uncertainty related to going concern the auditor’s reporting responsibilities are outlined in ISA 570 (Revised), requiring an auditor to consider and conclude to issue:

- An unmodified opinion with a separate paragraph on material going concern uncertainty;
- A qualified opinion; or
- An adverse opinion.

*(For detailed answer please see section Going Concern of this publication).*

The above entails, that auditor in certain situations may consider including going concern matters as a KAM. In context of affect of COVID-19 on going concern, KAM may be included where following factors (all inclusive) exist:

- Auditor’s significant work involved going concern considerations
- Events or conditions were identified that may cast doubt on the company’s ability to continue as a going concern
- Management use of the going concern basis of accounting is appropriate
- Based on the audit evidence obtained the auditor concludes that no material uncertainty exists
Would the COVID-19 related mobility restrictions impact auditor’s determination and communication of KAMs?

With regard to COVID-19 circumstances including present mobility restrictions, possibility of auditor’s in-person meetings with the management, audit committee and board of directors might not be possible. However, these restrictions do not diminish the auditor’s responsibility to communicate with management and those charged with governance. Rather, due to possible operational and financial challenges for companies, the auditors' timely communication may become more critical and extended.

The auditor:

- Should determine and agree the communication strategy for audit matters, including KAM, with management and those charged with governance (i.e. audit committee and board of directors).
- Is advised to discuss preliminary views about significant auditor’s attention matters that could be KAM, as early as possible with those charged with governance. Early communication may also enable company to respond with further information and audit related documentation.
- Should update those charged with governance throughout the audit, as assessment of KAMs may change during the audit.
- Should make at the conclusion and reporting stage, the final determination and communication of KAMs with those charged with governance.

Should the auditor consider including an emphasis of matter paragraph instead of a KAM?

A matter that is considered by an auditor as KAM is usually important for users’ understanding of the financial statements and the auditor’s responsibilities and audit work. Therefore it may also meet the definition of an Emphasis of Matter or an Other Matter. Where auditor faces such matters, then the matter would be a KAM as opposed to an Emphasis of Matter or Other Matter.

Accordingly, auditor should not consider including an Emphasis of Matter and Other Matter paragraphs for a matter that is a KAM.

Should the auditor consider including KAM based on company’s information outside the financial statements?

Companies may be providing critical information about implications of COVID-19, in various documents / press releases. The information may include COVID-19 implications on operation, business plans, future outlook, stakeholder relationships, contractual terms etc.

The auditor’s responsibility in reporting KAMs is to refer to the relevant financial statement accounts or financial statement disclosures rather than to disclosures outside the financial statements.

The disclosures outside of financial statements may, however, be relevant in the context of KAM communication. If a matter giving rise to a KAM has not been disclosed in the financial report but is publicly available information, the auditor may make reference to the publicly available information if it is considered appropriate and helpful to users, noting that this information has not been audited.

Can the auditor report a subsequent event as KAM or as an emphasis of matter paragraph?

Subsequent events which are adjusted or disclosed in the financial report are matters relevant to the financial statements of the current period. Therefore, incase of listed companies (i.e. where ISA 701) applies, they may be identified as a KAM if, in the auditor’s judgement, they are a matter of most significance to the audit of that financial report.

On the other hand, if ISA 701 does not apply, or if the matter is not a matter of most significance to the audit (i.e. not a KAM), the auditor using judgement should considers whether an emphasis of matter paragraph is appropriate in accordance with ISA 706. An example of such matter could be fire in company’s factory after the financial statements date.
Can the auditor consider including an emphasis of matter paragraph in the auditor’s report in relation to COVID-19 events and conditions?

ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*, outlines that emphasis of matter paragraphs are included in the auditor’s report if the auditor considers it necessary to draw users’ attention to a matter that is:

- Appropriately presented or disclosed in the financial statements; and
- In the auditor’s professional judgment, is of such importance that it is fundamental to users.

Paragraph A5 of ISA 706 further indicates that a major catastrophe that has had, or continues to have, a significant effect on the company’s financial position is an example of circumstances when the auditor may consider it necessary to include an emphasis of matter paragraph. The auditor may conclude that COVID-19 related events have such a significant impact on the financial position of company that it would be appropriate to include an emphasis of matter paragraph in the auditor’s report directing the reader’s attention to the event and its effects on the company.

The auditor is required to consider whether the matter is KAM or an Emphasis of Matter Paragraph. There may be a matter that is not determined to be a KAM (i.e. because it did not require significant auditor attention), but is fundamental to users’ understanding of the financial statements, the audit, the auditor’s responsibilities or the auditor’s report (for example a subsequent event, information about prior year auditor). If such matter is considered necessary for drawing users’ attention, it is included in an Emphasis of Matter or Other Matter paragraph as appropriate.

As explained earlier, the emphasis of matter paragraph is not included where a KAM is disclosed relating to the COVID-19 outbreak (in accordance with ISA 701), or the matter resulted in the modification of opinion (in accordance with ISA 705 (Revised)).
Would COVID-19 related information affect the auditor’s responsibility for disclosures outside the financial statements?

ISA 720, *The Auditor’s Responsibilities Relating to Other Information*, deals with the auditor’s responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor’s report thereon), included in an company’s annual report.

Companies may be providing information about the future outlook in the annual report (such as directors report prepared under the Companies Act, 2017).

In context of COVID-19, where information has been provided in the annual report and outside of the financial statements, the auditor should discuss the content with audit committee/board of directors and management. The other information may be material in context of implications of COVID-19 and management’s plans for the future to deal with the consequences. The auditor should:

- Obtain the other information
- Read the other information
- Consider whether there is a material inconsistency between the other information and the financial statements, and/or the auditor’s knowledge obtained during the audit
- Respond to the outcome of reading and evaluation of other information
- Include a section on the other information in the auditor’s report (also needs to consider the impact of any qualification on the financial statements)
- Document the procedures performed and the final version of the Other Information

Further, the auditor should also assess whether the information in the annual report is materially consistent with the financial and non-financial information provided in the financial statements. Importantly, the auditor does not express any form of assurance conclusion on the other information.

How auditor should consider the impact of COVID-19 related disclosures outside the financial statements, on the audit report?

The auditor shall include in the auditor’s report a separate other information section when the auditor has obtained some or all of the other information as of the date of the auditor’s report. For audits of financial statements of listed companies, an other information section will also be included if the auditor expects to obtain other information after the date of the auditor’s report.

If a material inconsistency (for example relating to management response and future outlook after COVID-19) is identified between the other information and the financial statements and/or the other information and the auditor’s understanding of the company, the auditor shall perform audit procedures to conclude whether:

- A material misstatement exists in the other information
- A material misstatement exists in the financial statements
- The auditor’s understanding of the company needs to be updated

The auditor shall request management and those charged with governance to make the correction in other information. However, in case correction is not made in other information the auditor shall include a statement in the auditor’s report that describes the uncorrected material misstatement of the other information.
Group Audits

What could be the impact of COVID-19 on group audits?

ISA 600, Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors) sets out requirements for obtaining sufficient audit evidence and documentation of work done by component auditors for forming a basis for the group audit opinion.

The group auditor can obtain this evidence by reviewing the working papers of the component auditor. However, the travel restrictions due to COVID-19 outbreak may make it difficult for a group auditor to physically travel for reviewing the working papers of the component auditor.

Besides physically traveling for review of component auditor’s work papers there are other alternative modes of review. As an alternate the group engagement team may consider obtaining audit evidence about components through:

- Requesting the component auditor to provide a detailed reporting memorandum;
- Corroborate it through discussions with the component auditor, especially on the significant risks of material misstatement and areas of significant estimates and judgements

The group auditor should also ensure that the response of component auditor in the reporting memorandum is sufficiently detailed and appropriate to conclude on the adequacy of the work performed by the component auditor. The group auditor should document the discussions with the component auditor as part of audit documentation.

Where the group engagement team is unable to complete the audit arising from the challenges pursuant to the COVID-19, the group engagement team is required to consider whether this is a scope limitation audit, will result in a modification of the audit opinion in accordance with ISA 705.
Half Yearly Review of Financial Statements

What are the procedures that auditor would need to perform for review of interim financial information?

*International Standard on Review Engagements (ISRE) 2410*, provides guidance on the auditor’s professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report.

The auditor is required to plan and perform the review with an attitude of professional skepticism, recognizing the impact of COVID-19 that cause a material adjustment in the interim financial information, in all material respects, in accordance with the applicable financial reporting framework.

A review consists of:

- making inquiries primarily of persons responsible for financial and accounting matters; and
- applying analytical and other review procedures.

The auditor ordinarily requires to perform the following procedures:

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees;
- Considering the effect of COVID-19 giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements;
- Inquiring of members of management about the impact of COVID-19:
  - Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.
  - Whether appropriate adjustments or disclosures are made in the interim financial information.
  - Whether there have been any changes in accounting principles or in the methods of applying them.
  - Whether any new transactions have necessitated the application of a new accounting principle.
  - Whether the interim financial information contains any known uncorrected misstatements.
  - Significant assumptions that are relevant to the fair value measurement or disclosures;
  - Significant changes in commitments, contingent liabilities, contractual obligations and compliance with debt covenants due to COVID-19.
  - Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
  - Knowledge of any fraud or suspected fraud affecting the company involving management, employees or others where the fraud could have a material effect on the interim financial information.
  - Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.
- Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information.
- Reading the Interim financial information.
What could be the impact of COVID-19 on auditor’s responsibilities relating to going concern assessment for review of March 2020 financial statements?

The auditor should inquire whether management has changed its assessment of the company’s ability to continue as a going concern. As a result of COVID-19 event, many companies would be facing going concern issue. In such case, the auditor should:

- Inquire of management as to its plans for future such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital;
- Inquire as to the feasibility of management’s plans and whether management believes that the outcome of these plans will improve the situation;
- Consider the adequacy of the disclosure about such matters in the interim financial information.
- Reading the interim financial information.

In a review of financial statements, what could be the implications on the auditors’ review report in case of scope limitations?

When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report.

If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor feels is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed.

Other than above, a limitation on scope may occur due to circumstances like COVID-19 event. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion.

Where the limitation on the scope of the auditor’s work is clearly confined to one or more specific matters that, while material, are not in the auditor’s judgment pervasive to the interim financial information, the auditor should modify the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this ISRE, and by qualifying the conclusion.

Further, if a qualified opinion was given on the latest audited annual financial statements because of a limitation on the scope of that audit, the auditor should consider whether that limitation on scope still exists and, if so, the implications for the review report.

Is there any change in the auditor’s review report of compliance with corporate governance regulations under the Auditors (Reporting Obligations) Regulations 2018?

This matter is not linked to COVID-19.

However, it is pertinent to highlight that the review report on the statement of compliance as prescribed under the Auditors (Reporting Obligations) Regulations 2018 has been amended.

Consequent with the issuance of the Listed Companies Corporate Governance Regulations 2019, SECP (through S.R.O. 269 (I)/2020 dated 30 March 2020) has revised the review report on the statement of compliance contained in Annexure VI of the Listed Companies (Code of Corporate Governance) Regulations 2019.
## Other resources

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICAP</td>
<td>Compilation of illustrative KAMs</td>
<td><a href="http://www.icap.net.pk/nar/kam">http://www.icap.net.pk/nar/kam</a></td>
</tr>
</tbody>
</table>