IMPLICATIONS FOR AUDITORS RELATED TO THE COVID-19 OUTBREAK

07 April 2020

Disclaimer

Introduction

While the outbreak of COVID-19 (Coronavirus) is primarily a public health issue the outbreak will have implications for those charged with governance and their auditors. The information below sets out the main matters that auditors will be required to consider when carrying out audit engagements throughout the coronavirus outbreak. A great deal of uncertainty remains in relation to how the COVID-19 crisis will evolve, as further issues arise CPA Ireland will update and add to the guidance below.

- ISA (Ireland) 315, Identifying and assessing risks of material misstatement though understanding of the nature of the entity and its environment;
- ISA (Ireland) 570, Going Concern
- ISA (Ireland) 501, Audit evidence – Additional Considerations for Specific Items;
- ISA (Ireland) 560, Subsequent Events
- ISA (Ireland) 720, The Auditor's responsibility relating to other information in documents containing audited financial statements

Risk Assessments

Auditors are required to assess the risks of material misstatement, at the financial statement and assertion level, through gaining an understanding of the audit entity including its internal control. For audits that were underway, prior to the outbreak of COVID-19, auditors will need to revisit their risk assessment and associated responses to that assessed risk[1].

The emergence of new risks or revisions to existing risks as a result of the outbreak of COVID-19 may impact on the planned audit approach. For example, going concern may not have previously been an identified risk for many companies. However, factors such as loss of revenue and liquidity issues is likely to increase going concern risk for many companies across a variety of sectors and lead to revisions to many auditors' planned approach to this area.

Additionally, the COVID-19 outbreak may have implications for the auditor's understanding of the entity's internal controls. For example, the disruption caused by the coronavirus businesses may result in increased risk, as a result of remote working, in relation to controls that were previously considered to be operating effectively.

Going concern

It is the responsibility of management to assess the entity's ability to continue as a going concern, in making this assessment they are required to consider at least twelve months from the date of approval of the financial statements. Management, in many cases, will have already prepared this assessment and will therefore be required to review and update their assessment to reflect the threat of COVID-19 to their business.

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[1] Para 31, ISA (Ireland) 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment.

The crisis is already impacting many businesses across a variety of sectors through loss of revenues, disruptions to supply chains, working capital pressures and import/export restrictions. Management will therefore need to revise assessments to reflect the impact these matters are having on their businesses and the steps they are taking in order to address these risks.

The auditor's responsibility is to obtain sufficient appropriate audit evidence regarding, and conclude on

a) Whether a material uncertainty related to going concern exists; and
b) The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements[2].

Auditors will be required to obtain and evaluate management's assessment of the entity's ability to continue as a going concern, which should include critically assessing the assumptions on the assessment is based and any plans for future action by management related to going concern[3]. In reviewing the assessment auditors should be aware of the requirement to maintain professional scepticism when reviewing future cashflows relevant to the company's ability to continue as a going concern[4].

Implications for the Auditors Report[5]

The impact of the COVID-19 outbreak may result in an increase in the inclusion of "Material Uncertainty Related to Going Concern" paragraphs and modifications in Auditors Reports. The following situations may arise the implications of which for the auditor's report are set out in appendix 1 to this guidance document

a) The going concern basis of accounting in appropriate and no material uncertainty related to the company's ability to continue as going concern exists;
b) The financial statements have been prepared on the going concern basis by management and the auditor cannot obtain sufficient appropriate audit evidence on which to base his or her opinion;
c) The financial statements have been prepared on the going concern basis by management and the auditor concludes based upon the audit evidence obtained that this is inappropriate;
d) The going concern basis of accounting is appropriate but a material uncertainty exists related to the company's ability to continue as a going concern. The financial statements contain adequate disclosure of the material uncertainty; and
e) The going concern basis of accounting is appropriate but a material uncertainty exists related to the company's ability to continue as a going concern. The financial statements do not contain adequate disclosure of the material uncertainty[6].

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[2] Para 6-1, ISA (Ireland) 570 – Going Concern
[3] Para's 12-1 – 15-1, ISA (Ireland) 570 – Going Concern
[4] Para 12D-3, ISA (Ireland) 570 – Going Concern
[5] Para's 21 to 23, ISA (Ireland) 570 – Going Concern
[6] A qualified or adverse opinion should be expressed in accordance with ISA (Ireland) 705 – Modifications to the Opinion in the Independent Auditor's Opinion. The type of opinion to be expressed is determined by the auditor's assessment of the materiality and pervasiveness of the matter.

Stock attendance

Where stock is material to the financial statements the auditor is required to obtain sufficient appropriate audit evidence in relation to existence of stock[7]. The restrictive measures, announced by the Government at the end of March 2020, to prevent the spread of COVID-19 will likely impact on attendance at stocktakes by Auditors.

There are a number of options that the auditor could consider when unable to attend the stocktake as a result of the COVID-19 outbreak.

a) Consider extending the accounting period in accordance with Section 288 Companies Act 2014. This option will only be available where the accounting period has not already been extended in the previous five years[8];
b) Attend the stocktake at a later date in the year and perform roll back procedures to adjust for sales and purchases in the intervening period. As many businesses are closed following the closure of non-essential businesses the roll back procedures should be straightforward with minimal stock movement;
c) Consider whether use of technology such as zoom might provide a solution in relation to obtaining sufficient appropriate audit evidence in relation to existence of stock.

Where the auditor is unable to obtain sufficient appropriate audit evidence in relation to the existence of stock it will be necessary to modify the auditor's opinion in accordance with *ISA (Ireland) 705 Modifications to the Opinion in the Independent Auditor's Report.*

Limitations in obtaining audit evidence

Auditors may face other practical difficulties which result in potential limitations in obtaining audit evidence. For example, it may be difficult to access staff of the audit client due to self-isolation or illness. Additionally, it may be difficult physically verify assets (other than stock noted above), such as tangible fixed assets. Where the auditor is unable to perform alternative procedures to gain sufficient appropriate audit evidence, they will be required to consider the implications for the auditor's report[9].

Subsequent Events

Auditors are required to perform procedures to obtain sufficient appropriate audit evidence in relation to events occurring between the balance sheet date and the date of the auditor's report[10]. For entities reporting at 31 December 2019 the COVID-19 outbreak is unlikely to be an adjusting post balance sheet event, as the coronavirus was not discovered until January 2020 and therefore does not provide evidence in relation to conditions existing at the balance sheet date.

However, where the effects of the outbreak are material disclosure will be required in relation to the nature of the event and an estimate of the financial effect or a statement that such an estimate cannot

[7] Para 4, ISA 501 – Audit Evidence – Specific Consideration For Selected Items
[8] Section 288 (9) Companies Act 2014
[9] ISA (Ireland) 705, Modifications to the Opinion in the Independent Auditor's Report
[10] Para 6, ISA 560 – Subsequent Events

be made[11]. Auditors will need to carefully consider the adequacy of the disclosures of the impact of COVID-19 by the audit entity in arriving at their audit opinion.

Other information

The auditor is required to read other information and consider the consistency or otherwise of that other information with the information contained in the financial statements. In Ireland, statutory other information includes the directors' report. Management are required to disclose in the Directors' Report a description of the principal risks and uncertainties[12], which will include principal risks and uncertainties related to the outbreak of COVID-19. Auditors will need to carefully consider the consistency of this information with that contained in the financial statements, for example note disclosures.

[11] Para 32.10 FRS 102 The Financial Reporting Standard Applicable in the UK and ROI, Para 1AD.54 for entities reporting under FRS 102 Section 1A

[12] Section 327(1)(b) Companies Act 2014, Companies that qualify for the small companies regime or micro companies regime are exempt (Section 327(1)(a) Companies Act 2014.

APPENDIX 1 - FLOW CHART IMPLICATIONS FOR THE AUDITORS REPORT GOING CONCERN