ĐỘC LẬP - TRUNG THỰC - MINH BẠCH

HỘI KIỂM TOÁN VIÊN HÀNH NGHỀ VIỆT NAM

TỔNG HỢP TÀI LIỆU VỀ KIỂM TOÁN TRONG MÔI TRƯỜNG ĐẠI DỊCH COVID-19 CỦA LIÊN ĐOÀN KẾ TOÁN QUỐC TẾ (IFAC)

Going Concern in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19

This publication has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to, and concluding on, the appropriateness of management's use of the going concern basis of accounting in accordance with the International Standards on Auditing™ (ISA™).

This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to going concern, as well as any modifications made to the auditor's report in respect of any uncertainties related to going concern.

Đại dịch COVID-19 đã gây ra những tác động sâu sắc cả về đời sống cá nhân lẫn nghề nghiệp của mỗi cá nhân chúng ta. Đối với nghề kiểm toán, sự không chắc chắn và các rủi ro đã làm gia tăng sự phức tạp trong công tác kiểm toán báo cáo tài chính.

Đồng thời, sự chuyển đổi nhanh của công nghệ hiện nay của các hoạt động kinh doanh và kiểm soát trực tuyến của khách hàng đã dẫn đến các thách thức lớn cho kiểm toán viên khi thực hiện các cuộc kiểm toán trong những tình huống như thế này. Tuy môi trường có nhiều thay đổi là vậy, nhưng cam kết về chất lượng kiểm toán và việc tuân thủ các chuẩn mực chuyên môn nghề nghiệp thì kiểm toán viên vẫn phải luôn duy trì và cập nhật đặc biệt trong suốt thời gian dịch này.

Nhận thấy những khó khăn ảnh hưởng đến nghề nghiệp, VACPA đã tổng hợp được các tài liệu liên quan đến việc kiểm soát chất lượng của cuộc kiểm toán trong môi trường đại dịch COVID-19 của Liên đoàn Kế toán Quốc tế (IFAC). Các tài liệu là những chia sẻ, kinh nghiệm, kiến thức của các chuyên gia cấp cao đến từ các doanh nghiệp kiểm toán với quy mô lớn, nhỏ và vừa cũng như từ các cơ quan quản lý, cơ quan soạn thảo chuẩn mực và những kế toán viên/kiểm toán viên chuyên nghiệp đang hành nghề trên thế giới. Những thông tin này đã được đúc kết từ ba cuộc hội thảo của IFAC tương ứng với ba giai đoạn của cuộc kiểm toán: Giai đoạn lập kế hoạch, giai đoạn thực hiện, và giai đoạn kết thúc cuộc kiểm toán - hình thành ý kiến kiểm toán.

VACPA kính gửi đến Quý Hội viên, anh/chị kiểm toán viên các nội dung này trong tài liệu dưới đây!

Xin trân trọng cảm ơn!

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Webinar Series – Practical Audit Quality Considerations for Auditing in the Pandemic Environment
July 2020

International Federation of Accountants®

Webinar 1: Planning the Audit in the Pandemic Environment

Summary of Key Takeaways

Panelists

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International Federation of Accountants®

Introduction

The COVID-19 pandemic has far reaching implications, with many people still comprehending and adjusting both personally and professionally. For the audit profession, the increased complexities of financial statement reporting and related risks and uncertainties, coupled with a rapid shift to virtual business operations and controls, have significantly challenged the delivery of audit engagements and necessitated virtual audits. But while much has changed, the commitment to audit quality and professional standards has not. The auditing standards remain fit for purpose in a COVID-19 context, and in the current uncertain environment audit quality remains more important than ever. Supporting people wellness is also paramount as ultimately, high quality audits depend on high quality individuals working at their best.

In the first of a three-part webinar series, IFAC convened a panel of audit experts to share their perspectives and practical insights on planning the audit and ensuring people wellness in the pandemic environment. This document provides a summary of key takeaways from the discussion. The full recording of the session can be accessed here.

Audit Approach – Audit Quality Challenges & Practical Considerations

Audit planning sets the foundation for the entire audit, both from the point of view of the auditor as well as the audit client. ***"If you fail to plan an audit, then you plan to fail"***

NEW WAYS OF WORKING		
Challenges		**Practical considerations**
Quick shift to remote operations for both the audit team and audit clients has changed the logistics of obtaining information and audit evidence.	➡	Properly planning the audit has become so much more important, particularly as the entities operations and processes may have changed significantly since the prior year. Auditors need to consider alternative means of obtaining audit evidence as part of the planning process. An increase in documentation is likely, e.g. more documentation of thought processes in areas of significant judgement. More and multiple types of evidence may be required. Electronic evidence such as screenshots may not be sufficient without further verification or corroborating evidence. Clients may require guidance from the auditors on types of documentation and information needed.
Exercising professional skepticism can be more challenging in the absence of face to face interactions in person with an audit client.	➡	Observing reactions and body language in response to inquiries can be an effective way of exercising professional skepticism. Face to face interactions cannot be replaced by email correspondence alone. When responding to an email, clients have more time to think about and articulate their responses to queries. Emails may need to be followed up with live conversations, including using video where necessary. This is particularly important for challenging or contentious issues, e.g. fraud inquiries.
New ways of working for the International Audit and Assurance Standards Board (IAASB) focus on: 1. **Assisting** – issuing timely staff alerts on emerging issues 2. **Adapting** – reviewing workplans and timelines (including consultation periods and effective dates), and shifting the Board to virtual operations 3. **Coordinating** – with key stakeholders including IFAC, national standard-setters and regulators		

RISK IDENTIFICATION & INTERNAL CONTROLS	
Challenges	**Practical considerations**
More frequent assessment of risk is needed.	Risk identification and assessments are iterative, but in such a rapidly changing and complex environment, re-assessment of risk is vital. Early and frequent communication with management and the audit committee is important. The longer the audit takes, the more chance that new risks emerge, and facts and circumstances change, which will create additional audit work. Scheduling audits of groups or subsidiaries at the same time will be more efficient.
Changed client working practices and protocols, along with personal and/or organizational financial pressures could create both the opportunity and incentive for fraud.	Auditors should have heightened awareness of the possibility of fraud or error, with the importance of the exercise of professional skepticism top of mind when performing audit procedures. Auditors need to assess the changed control environment, including key controls such as segregation of duties or systems access that may be weakened in a virtual work environment. Carefully reviewing any government COVID-19 support packages, incentives or subsidies is important. Often these have eligibility requirements such as proof of decrease in revenue.
Auditing management's assessment of going concern may be more challenging due to significant areas of uncertainty.	Auditors need to think holistically about all the different ways to stress test a going concern analysis. Applying professional skepticism to the judgements and assumptions used by management is crucial, as well as ensuring sufficient appropriate audit evidence is obtained to support the auditor's conclusion on management's assessment. For more guidance on going concern, see the IAASB Staff Practice Alert.

MATERIALITY	
Challenges	**Practical considerations**
Previous benchmarks used for determining materiality may not be appropriate, particularly where operations and/or revenues have significantly changed pre and post-COVID.	Materiality assessments may need to be revised as the audit progresses – not just at the planning stage. Considerations in determining materiality could include: • Whether the underlying business remains the same – any significant restructuring, end of business lines, or closures of office? • Whether backward-looking or historical benchmarks are suitable or not. • Profit vs revenue vs asset benchmark. If a change in benchmark results in a higher materiality, consider whether that is appropriate during this economic downturn. Determining materiality requires professional judgement and it is important that the rationale is well documented.

ETHICS / INDEPENDENCE	
Challenges	**Practical considerations**
Maintaining confidentiality with teams working remotely from home.	With audit teams unable to work at client sites, confidential information is often being sent via email to auditors working unsupervised from home. Practitioners should consider issuing guidance on maintaining confidentiality during a remote audit.
Clients under financial pressure not paying audit fees or seeking a reduced fee.	Auditors may have to have difficult conversations with clients on audit fees. With the additional risks as a result of COVID-19, fee reduction could impact the audit.
Self-review threat as clients look to their auditors for guidance.	Threats to independence need to be reassessed on a continual basis. If there is concern that independence has or could be compromised, talking through ethical dilemmas as they arise with other firm partners can be helpful.

People Wellness

Leadership priorities include:

- Setting tone at the top is and ensuring it flows through the organization
- Demonstrating compassion/empathy for staff and an understanding of personal circumstances
- Sharing personal insights and coping strategies
- Maintaining team connectiveness virtually, while also recognizing virtual fatigue/exhaustion
- Encouraging informal conversations and catch-ups
- Encouraging staff to take vacations or breaks from work, and maintaining clearer boundaries between work and home

For further guidance on **Audit** and **Financial Reporting** considerations due to COVID-19, please refer to IFAC's dedicated webpages on both topics:

For further COVID-19 related guidance on audit and ethics from the standard-setting boards, please refer to their webpages:

IAASB: Guidance for Auditors During the Coronavirus Pandemic

IESBA: COVID-19: Ethics & Independence Considerations

Published by: IFAC International Federation of Accountants®

IAASB®

Staff Audit Practice Alert
March 2020

Highlighting Areas of Focus in an Evolving Audit Environment Due to the Impact of COVID-19

Global developments relating to the COVID-19 pandemic have also impacted the work of auditors. Uncertainty and unpredictability may create risks of material misstatement that are new, or intensified, in the circumstances. When planning the audit, auditors may not have considered these risks or may have considered identified risks differently.

Entities being audited are adjusting to the changing environment relating to their businesses and operations, including financial reporting processes, disclosures in financial statements and their ability to maintain operations in the foreseeable future.

Similarly, auditors have to adjust how they obtain sufficient appropriate audit evidence on which to base the audit opinion, amid challenges relating to, among other things, access to people or information, revising the identification and assessment of certain risks of material misstatement, and changing planned audit procedures or performing alternative or additional audit procedures as may be appropriate. Auditors may also find that the current circumstances bring opportunities to do things differently, for example, by using new, or flexing the use of existing, technology resources.

Lastly, other changes in the environment and financial reporting chain may also impact the audit, such as changes in the applicable financial reporting standards, changes in laws or regulations, or new transactions for the entity such as the receipt of subsidies.

Changes in how, and where, auditors are undertaking their work may necessitate firms to respond to the changing environment, for example by considering **quality control policies and procedures** relating to direction and supervision of engagement teams and the review of their work. At the engagement level, auditors should have heightened awareness of the possibility of **fraud or error**, including fraudulent financial reporting, with the importance of the exercise of **professional skepticism** top of mind in performing audit procedures.

The following highlights some of the more significant areas that may need to be further considered in designing and performing audit procedures to obtain sufficient appropriate audit evidence, and to report accordingly.

Relevant ISA	Specific Matters for Consideration
Identifying and assessing risks of material misstatement ISA 315 (Revised)	• The impact on the planned audit approach of new or revised risks that have arisen because of COVID-19 • Possible revision of risk assessments already made
	• The impact of changes to the auditor's understanding of the entity's system of internal control, including: o The control environment o Changes to the planned reliance on controls in determining responses to identified risks of material misstatement
Responding to Assessed Risks (ISA 330)	• Changes needed to planned responses arising from the impact of environmental developments, such as the ability to obtain sufficient appropriate audit evidence (e.g., there may now be access issues or attendance at a stock count may not be possible for which alternative procedures may be needed.)
	• Greater focus on: o The financial statement closing process (in particular journal entries and other adjustments made). o The auditor's evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made. o The auditor's conclusion on whether sufficient appropriate audit evidence has been obtained.
ISA 540 (Revised) Auditing Accounting Estimates	• Greater focus on: o Changes to regulatory factors that may affect accounting estimates (e.g., initiatives aimed at sustainable solutions for temporarily distressed debtors in the context of the outbreak). o Whether assumptions are appropriate in the circumstances and in the context of the applicable financial reporting framework (e.g., cash flow forecasts, discount rates, etc.). o Whether data being used by the entity is relevant and reliable. o The effect of changing inherent risk factors, in particular uncertainty.

Relevant ISA	Specific Matters for Consideration
The auditor's responsibilities relating to subsequent events (ISA 560)	• Considering that shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor's report. • The identification of any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework.
The auditor's responsibilities relating to going concern (ISA 570 (Revised))	• The impact of COVID-19 (i.e., whether it has materially impacted or is it expected to materially impact) on the auditor's evaluation of management's assessment of going concern. • Reconsideration of the appropriateness of the use of the going concern basis for the preparation of the financial statements, or consequential modification to the auditor's report as needed.
Group audits (ISA 600)	• If applicable, reassessment of the group auditor's planned procedures in relation to the work of component auditors, such as the ability of the group auditor to appropriately review (or be involved in) the work of component auditors, i.e., whether alternative procedures need to be considered, and the impact on the sufficiency and appropriateness of audit evidence on which to base the group audit opinion..

Relevant ISA	Specific Matters for Consideration
Forming an opinion and reporting on financial statements (including key audit matters) (ISA 700 (Revised) and ISA 701)	• Focusing on matters to be able to conclude, including whether all key aspects of the audit have been appropriately addressed, such as: ◦ Areas that may require management to provide further evidence due to the fast-changing nature of this issue. ◦ New uncertainties introduced as a result of COVID-19, e.g., have appropriate changes been made to recognize any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations); ◦ The impact of new or changed laws or regulations on the financial statements. • Where applicable, new key audit matters to be included in the auditor's report (e.g., matters that rise to the level of requiring significant auditor attention owing to the impact of COVID-19).
Other Information (ISA 720 (Revised))	• Any inconsistencies between the information provided by the entity in its annual report and in the financial statements about the impact of developments arising from COVID-19.

Other Related Staff Alerts (to come)

- Highlighting Areas of Focus when Auditing Accounting Estimates in an Evolving Environment Due to the Impact of COVID-19.
- Highlighting Matters for Consideration Related to Going Concern in the Current Evolving Environment Due to the Impact of COVID-19.
- Highlighting Matters for Consideration Related to Auditor Reporting in the Current Evolving Environment Due to the Impact of COVID-19.
- Highlighting Matters for Consideration for Public Sectors Auditors in the Current Evolving Environment Due to the Impact of COVID-19.

International Standards on Auditing Referred to in this Publication

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

ISA 330, *The Auditor's Responses to Assessed Risks*

ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

ISA 560, *Subsequent Events*

ISA 570 (Revised), *Going Concern*

ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

COVID-19: Ethics and Independence Considerations

Foreword from IESBA Chairman, Dr. Stavros Thomadakis

Disruption of production, loss of business and employment, and financial distress are becoming economic landmarks of the global COVID-19 pandemic. Revitalization and growth will hopefully follow the present economic malaise, once the health crisis is securely behind us.

Being honest, competent and objective are virtues heavily valued for all professionals, particularly in adversity. Professional accountants are advantaged by having a highly developed, clear and well-structured International Code of Ethics guiding their judgment and behavior.

Reliable and truthful financial reporting and independent auditing are now highly needed by investors and other stakeholders and have a large role to play in managing outcomes of, and exit from, the sudden calamity. Trust in financial statements is critical, especially in adverse times, to minimizing damage and redeploying resources for recovery. The application of the *International Code of Ethics for Professional Accountants, (including International Independence Standards)* is key to preservation and expansion of trust.

The pandemic creates many financial, operational and personal difficulties. Professional accountants must now, more than ever, remain focused on the public interest and their ethical responsibilities. In business or public practice, compliance with the fundamental principles remains an indispensable feature: integrity, competence and due care, objectivity, professional behavior and confidentiality—each draws a sharper meaning in the special circumstances of today.

With sudden uncertainty, circumstances change rapidly and many companies unexpectedly face serious distress. Professional accountants must be flexible, alert and skeptical to maintain fidelity to the fundamental principles. Auditors must be ready to re-evaluate the level of threats and revisit actions they take to maintain independence.

In serious crisis, companies and organizations have to change quickly ways of working—going digital and working remotely are the foremost examples—and need help to seek special public or private assistance. Professional accountants will of course advise and support their employing organizations or their clients to adjust and recover; however, they must balance advice and support without giving into pressures to act contrary to their ethical responsibilities. For auditors, this means not assuming a management responsibility for an audit client. Intensified communication with those charged with governance will prove essential in these circumstances.

Accountants in the public sector also need to intensify focus on ethical duties. The crisis is necessitating rapid expansion of governments' financial interventions. Public sector actions will involve important choices in pursuit of policies combining public health, economic and social goals. The quality of information will be critical in decision-making, evaluating policy outcomes and maintaining fiscal integrity.

This publication includes questions and answers to guide all users of the Code who come face to face with the large and small dilemmas of the present adversity. Thanking the IESBA staff for this timely effort, I also want to assure that we will remain close to the voices of all our stakeholders through this crisis that is testing and changing all of us.

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This Questions and Answers (Q&A) publication was developed by the Staff of the IESBA to highlight aspects of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that might be relevant in navigating ethics and independence challenges and risks as a result of the COVID-19 pandemic.

Topics of Relevance to All Professional Accountants

Threats to the Fundamental Principles

Q: What are some important considerations to bear in mind regarding compliance with the fundamental principles in the COVID-19 pandemic environment?

A: Professional accountants (PAs) are required to comply with the five fundamental principles of ethics set out in the Code, i.e., integrity, objectivity, professional competence and due care, confidentiality, and professional behavior, irrespective of their roles, professional duties, and the circumstances in which they perform their professional activities. They are also required to apply the Code's conceptual framework to identify, evaluate and address threats to compliance with those principles.

The pandemic has given rise to unprecedented challenges for businesses and organizations in the public, private and not-for-profit sectors around the world. It has caused major disruption to their operations as well as those of their stakeholders, including significant curtailment of activity. In addition, where operations can continue fully or partially, it has become necessary to adapt ways of working to the "new normal" or implement new approaches to work.

Depending on the roles and professional activities of PAs in business and in public practice, this dramatic change in landscape might create new threats or impact the level of previously identified threats to compliance with the fundamental principles. Under the conceptual framework, PAs are required to exercise professional judgement and remain alert for new information and changes in facts and circumstances. When there is new information or facts and circumstances change, the Code requires PAs to identify and evaluate any new threats, or re-evaluate previously identified threats, and address them. (See paras. R120.9 and 120.9 A1-A2.)

In the circumstances of the pandemic, several additional considerations are important. These include the following, set against each fundamental principle:

- *Complying with the principle of integrity means being straightforward and honest in all professional and business relationships. It also implies fair dealing and truthfulness.*

  In times of crisis, clear, accurate and transparent information takes on even greater importance as employing organizations and clients endeavor to chart paths forward amidst the pressures and uncertainties, and as they seek sources of financial or other support to sustain their businesses and operations. As key players in the financial reporting ecosystem, PAs will be called upon to produce, analyze and deliver the information upon which critical decisions will be made. As they do so, it will be important that they live up to their ethical obligation to act with integrity, even when doing so leads to reporting information that is unfavorable. *The Code prohibits PAs from being knowingly associated with information that is materially false or misleading*.

- *Complying with the principle of objectivity means not compromising professional or business judgment because of bias, conflict of interest or undue influence of others.*

Fear, anxiety and overall concerns about health, finances and the economy are widespread in this pandemic environment. These various sources of stress can affect PAs' frame of mind and their ability to assess their employing organizations', customers' or clients' business circumstances objectively. In addition, the assessment of the COVID-19 business or financial implications may be biased by a PA's own views and personal experience with the disease, as well as any concerns about their employment security. *Under the Code, a PA would be prohibited from undertaking a professional activity if a COVID-19 related circumstance would unduly influence the PA's professional or business judgment regarding that activity*.

- *Complying with the principle of* professional competence and due care *means being diligent; attaining and maintaining professional knowledge and skills to serve employing organizations and clients; and exercising sound judgment in applying such knowledge and skills.*

PAs are reminded that COVID-19 restrictions and challenges do not lessen their obligation to perform their professional duties in a diligent and competent manner, including appropriately supervising others within their spheres of responsibility even in a virtual work environment.

With social distancing part of the new norm in the pandemic environment, many organizations have cancelled in-person continuing professional development (CPD) courses. Nevertheless, online CPD courses and other options abound. PAs are reminded that practical challenges created by the pandemic do not lessen their responsibility to maintain their professional knowledge and skills to serve their employing organizations and clients competently.

- *Complying with the principle of* confidentiality *means respecting the confidentiality of information acquired as a result of professional and business relationships.*

In the pandemic circumstances, many employing organizations and firms have transitioned to virtual modes of work to maintain business continuity. It is important for PAs in business and in public practice to be alert to the increased security risks to the confidentiality of their employing organizations' or clients' data when using technology tools in a work-from-home setting or transferring the data to their home computers.

Security risks are heightened when employing organizations and firms have not had the opportunity to put in place the appropriate infrastructures, controls, protocols or policies to support the greater use of technology and collaborative tools by a virtual work force.

- *Complying with the principle* of professional behavior *means complying with relevant laws and regulations and avoiding any conduct that the PA knows or should know might discredit the profession.*

Many jurisdictions have introduced a variety of laws and regulations in response to the pandemic. These range from laws enacted to protect payrolls or provide fiscal relief to businesses to regulations aimed at protecting public health. *In complying with the principle of professional behavior, PAs are required to understand and comply with such laws and regulations as might apply to their particular circumstances*.

Importantly, in this time of crisis when employing organizations, clients, government agencies and other stakeholders depend so much on the work of PAs, it is vital that PAs conduct themselves in a manner that upholds the profession's responsibility to act in the public interest and the profession's good reputation.

Safeguards

Q: What should a PA do if a safeguard is no longer available as a result of the COVID-19 pandemic?

A: In accordance with the Code's conceptual framework, PAs in business and in public practice must address identified threats to compliance with the fundamental principles or, where applicable, to independence where those threats are not at an acceptable level. The conceptual framework also requires a PA to remain alert for new information and to changes in facts and circumstances that affect the PA's conclusions about whether safeguards applied continue to be appropriate. (See paras. R120.5 and 120.9 A1.) Safeguards are actions, individually or in combination, that the PA takes that effectively reduce threats to compliance with the fundamental principles or to independence to an acceptable level.

COVID-19 related health risks and restrictions might make it difficult or impossible to apply a safeguard to address a threat. For example:

- For organizations or firms with a small number of employees, applying safeguards that involve restructuring or segregating certain responsibilities and duties may be impracticable or impossible due to the COVID-19 pandemic. Individuals who were designated appropriate reviewers for particular engagements or tasks may be unavailable due to illness or might have been re-assigned or laid off.

- Auditors of financial statements may need to revisit planned safeguards to address threats to independence. For example, a firm providing tax planning or other tax advisory services to an audit client may experience delays in obtaining pre-clearance from a tax authority on specific tax advice to address self-review or advocacy threats.

  If a safeguard is no longer appropriate to reduce a threat to an acceptable level, the PA must take another action to address that threat. This might involve: (i) applying a different safeguard; (ii) eliminating the relationship or circumstance creating the threat; or (iii) ending the professional activity or service. Understanding the specific facts and circumstances, exercising professional judgment, and using the reasonable and informed third party test will help in deciding whether a safeguard continues to be appropriate or whether other actions should be taken. In addition, communication with management and those charged with governance (TCWG) might assist in informing the appropriate action to take.

Pressure

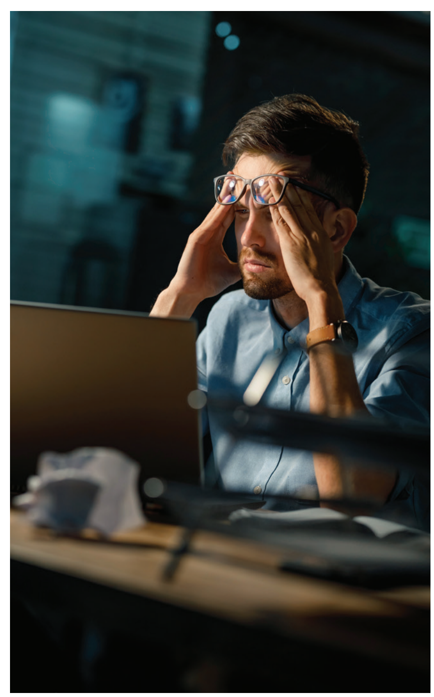
Q: What should PAs watch out for from an ethical perspective when facing COVID-19-related pressures?

A: In addition to the public health consequences, the COVID-19 pandemic has inflicted tremendous financial harm to economies around the world. As a result, many businesses and organizations are under significant pressure to cover their operating costs or continue as going concerns. PAs working in these businesses and organizations in turn might face a variety of pressures that could lead them to breach the fundamental principles. Examples that may be especially relevant in a COVID-19 environment include:

- *Pressure to influence the preparation and presentation of information*. For instance, PAs might face pressure from superiors, clients or others:
  - To report misleading information to lenders, creditors or government agencies.
  - To misstate income, expenditure or rates of return to protect capital projects and acquisitions.
- *Pressure related to inducements.* The COVID-19 pandemic creates greater opportunities for inducements to be offered for illicit gain. For instance, PAs may be pressured to make or accept an inducement to procure personal protective equipment in short supply in the pandemic, or to process a fraudulent claim for a government grant or loan.

  The Code (Section 250 for PAs in business, and Section 340 for PAs in public practice) prohibits PAs from offering and accepting an inducement that is made or is seen to be made (from the perspective of a reasonable and informed third party) with the intent to improperly influence the behavior of the recipient or of another individual.
- *Pressure to act without sufficient expertise or due care*. The abrupt transition to virtual modes of work, coupled with pressures many entities face in remaining viable businesses, might give rise to pressures exerted by superiors, clients or others on PAs to undertake assignments without sufficient skills or training, or within an unrealistic timeframe.
- *Pressure related to non-compliance with laws or regulations*. For instance, PAs might be pressured by their superiors or others to falsify information reported in applications for COVID-19 government grants or subsidized loans. Falsifying such information would compromise a PA's integrity.
- *Pressure related to conflicts of interest*. A PA who is responsible for vendor selection might be pressured to select as a vendor a family member who is experiencing financial hardship due to COVID-19.

  The Code prohibits PAs from allowing pressure from others to result in a breach of compliance with the fundamental principles. It also prohibits PAs from placing pressure on others that would lead them to breach the fundamental principles. The Code explains how to identify, evaluate and address threats created by pressure.



Preparing and Presenting Information

Q: What considerations are especially important when preparing or presenting information during the COVID-19 pandemic?

A: PAs are ideally placed to support employing organizations, clients, government agencies and public authorities navigate the pandemic through their knowledge, skills and experience in preparing or presenting information. The Code requires that in preparing or presenting information, PAs do so in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately. The Code also requires PAs to exercise professional judgment to represent the facts accurately and completely in all material respects; describe clearly the true nature of business transactions or activities; and classify and record information in a timely and proper manner. (See para. R220.4.) It also recognizes that preparing or presenting information might require the exercise of discretion when making professional judgments. (See para. R220.5.)

Many entities are facing liquidity or solvency crises as a result of the pandemic. In crisis situations, PAs need to be mindful that opportunities and risks arise for entities to misreport negative developments, withhold disclosure of essential information, or portray a false or misleading picture of financial conditions. Further, the crisis creates opportunities for entities to build so-called "cookie jar" reserves to smooth out financial results in the future. The ethical responsibilities for PAs noted above therefore become especially important. *Further, the Code prohibits PAs from exercising discretion where there is intent to mislead others or to influence contractual or regulatory outcomes inappropriately*.

PAs must also always comply with the fundamental principles and uphold the profession's reputation. (See Q1.)

Non-compliance with Laws and Regulations (NOCLAR)

Q: What are some important considerations relating to non-compliance with laws and regulations (NOCLAR) in the COVID-19 pandemic environment?

A: NOCLAR is any act of omission or commission, intentional or unintentional, committed by an employing organization or client, or by TCWG, by management or by other individuals working for or under the direction of the employing organization or client which is contrary to the prevailing laws or regulations.

PAs need to be alert that the pandemic has created significant opportunities for fraud, including procurement fraud (especially for personal protective equipment), online fraud (such as the sale of fake medical goods), fraudulent applications for government support, and charity impersonation fraud. Some businesses might also, intentionally or unintentionally, breach social distancing and other COVID-19-related public health and safety laws and regulations as well as those pertaining to labor and employment-related benefits.

In addition, the pandemic has left many entities grappling with several urgent business and operational challenges, including in relation to human capital, liquidity and solvency. The resulting financial challenges and other pressures might affect the implementation and oversight of organizational policies and procedures that are intended to help ensure compliance with laws and regulations. Consequently, some entities might fail to comply with certain legal or regulatory requirements.

The Code establishes a comprehensive framework for PAs in business (Section 260) and PAs in public practice (Section 360) to respond to NOCLAR or suspected NOCLAR, including discussion with management, escalating the issue within the employing organization or client, assessing the appropriateness of the response of management and TCWG, and determining whether further action is needed in the public interest.

The IESBA has a dedicated NOCLAR webpage with resources, including Staff Q&A publications, to facilitate application of the NOCLAR provisions in the Code.

Topics of Relevance to Auditors and Other Professional Accountants in Public Practice

Fees

Q: What are some of the considerations relating to fees charged to clients that become especially important in the COVID-19 environment?

A: *Pressure to Reduce Fees*

The Code does not specify the level of fees that firms should quote for services to be provided to their clients. Indeed, the Code states that a PA in public practice might quote whatever fee is considered appropriate. (See para. 330.3 A2.)

However, many entities are experiencing significant financial strain and even distress due to the COVID-19 pandemic. As a result, firms may face significant pressure from clients to reduce fees for services in progress or to be provided.

The Code notes that the level of fees quoted creates a self-interest threat to compliance with the fundamental principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards. (See para. 330.3 A2.) The Code provides guidance on factors relevant to evaluating the level of such a threat and actions that might be safeguards to address the threat. (See para. 330.3 A3-A4.)

In the context of an audit engagement, pressure from an audit client to reduce the level of the audit fee might be amplified if the firm needs to perform additional work to address audit issues created by the pandemic. The Code makes clear that the level of fees might create a self-interest or intimidation threat to independence. (See para. 410.2.) Firms should apply the conceptual framework to identify, evaluate and address such threats to independence.

Overdue Fees

For audit engagements, the Code states that a self-interest threat to independence might be created if a significant part of fees is not paid before the audit report for the following year is issued. The Code adds that it is generally expected that the firm will require payment of such fees before such audit report is issued. (See para. 410.7 A1.)

Given the unprecedented measures taken by governments around the world to temporarily close businesses and restrict movement to control the spread of COVID-19, many entities are now experiencing major liquidity issues or other financial difficulties. As a result, firms may find that some audit clients are unable or unwilling to pay part or all of their outstanding fees. Firms are reminded that when a significant part of fees due from an audit client remains unpaid for a long time, the Code requires them to determine whether the overdue fees might be equivalent to a loan to the client, and whether it is appropriate to continue the audit engagement or be re-appointed. (See para. R410.8.) If such situations arise, firms are encouraged to explore ways to mitigate the potential threats to their independence with management or TCWG of their audit clients, such as instituting instalment payment plans.

Non-assurance Services, Including Providing Advice and Assistance

Q: What considerations are especially important when firms are called upon to assist audit clients in securing funding or financial support in the COVID-19 circumstances?

A: Government lockdown measures to flatten the curve of the pandemic have caused a severe contraction in business for large and small entities alike, leading to significant financial losses and for many the threat of bankruptcy without short-term funding or financial support. Firms may therefore find themselves pressed by audit clients, especially small- and medium-sized entities, for assistance in their efforts to raise funds from lenders or the broader financial markets or to apply to government programs for COVID-19-related financial support.

Firms may provide such assistance to their audit clients through the provision of specific non-assurance services (NAS), for example, the preparation of prospective financial information and valuation engagements. However, to maintain their independence at all times, firms should be especially mindful of the following key provisions in the Code.

- *The service must not be prohibited under the Code*. The Code specifies services that are prohibited, especially for audit clients that are public interest entities (PIEs). Some services are permissible only when certain conditions are met.

  For audit clients that are PIEs, firms are encouraged to review the IESBA Staff publication, Summary of Prohibitions Applicable to Audits of PIEs.

IESBA CODE IESBAeCode.org

The search function in the IESBA eCode can help firms review the types of NAS dealt with in the Code. For example:

- Searching for "applying accounting standards or policies" and "providing advice" can assist firms in accessing guidance on factors to consider in determining the permissibility of advising audit clients on the application of financial reporting standards in the context of the pandemic.

- A search for "assisting in finance raising transactions" can direct firms to relevant considerations in deciding whether and how they can assist audit clients that are experiencing financial pressure due to COVID-19.

- *The NAS must not involve assuming a management responsibility for the audit client*. Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources. (See paras. R600.7 to 600.7 A1.) The Code explains that providing a NAS to an audit client creates self-review and self-interest threats if the firm assumes a management responsibility. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management. (See para. 600.7 A2.)

- *To avoid assuming a management responsibility, the firm must be satisfied that client management makes all judgments and decisions that are the proper responsibility of management*. This includes ensuring that the client management: (See para. R600.8.)

  - Designates an individual who possesses suitable skills, knowledge and experience to be responsible at all times for the client's decisions and to oversee the firm's work.

  - Provides oversight of the firm's work and evaluates the adequacy of the results for the client's purpose.

  - Accepts responsibility for the actions, if any, to be taken arising from the results of the NAS.

- *The NAS must not create a threat to independence that cannot be eliminated or reduced to an acceptable level*. (See para R600.4.) The firm must apply the conceptual framework to identify, evaluate and address any threats to independence as a result of providing the NAS. The Code provides guidance regarding:

  - Factors that are relevant in evaluating the level of the threat created by providing a NAS to an audit client. (See paras. 600.5 A1 to 600.5 A2.)

  - Actions, including safeguards, that might address the threats. (See paras. 600.6 A1 to 600.6 A3.)

- *The firm must not evaluate or compensate its partners based on success in selling NAS to audit clients*. Section 411 of the Code includes important considerations for firms regarding their evaluation or compensation policies given the financial pressures arising from the COVID-19 pandemic.

  Where there are specific laws and regulations that apply to the provision of the COVID-19 related NAS to audit clients, firms are also reminded to obtain a full understanding of the legal and regulatory requirements and comply with them.

Firms may also be approached by audit clients to loan some of their personnel on a short-term basis to fill in for client employees who are no longer available due to COVID-19 illness or other related reasons. Section 525 of the Code includes relevant provisions for firms to guide their independence considerations regarding temporary personnel assignments.

Finally, firms should be mindful of any potential conflicts of interest when providing assistance to their clients. For example, a conflict of interest might arise if a firm is involved in assisting a client obtain a COVID-19 related grant while also providing professional services to the government agency in charge of reviewing and approving the grant. Section 310 of the Code contains provisions to guide firms in navigating conflict of interest situations.

Long Association, Including Partner Rotation

Q: Is there any relief available under the Code if COVID-19 circumstances preclude a firm from rotating an engagement partner off the audit engagement for a PIE audit client as a result of long association with the client?

A: Yes. Firms, especially smaller ones, might face the challenge of an unforeseen reduction in resources due to the COVID-19 illness of certain partners, and therefore be unable to execute a planned partner rotation for the audit engagement. If an incoming engagement partner is unable to serve on an audit engagement due to COVID-19 illness, paragraph R540.7 of the Code provides an exception to the partner rotation requirement, allowing the outgoing engagement partner to serve an additional year provided that certain conditions are met, including obtaining the concurrence of TCWG.

Paragraph R540.9 of the Code also provides an exception to the partner rotation requirement for a key audit partner if the appropriate regulator in the jurisdiction has granted an exemption from partner rotation in such circumstances. The regulator would need to specify other requirements that should apply, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

The IESBA Staff Q&A publication, Long Association of Personnel with an Audit Client, highlights and explains certain aspects of the Code's long association provisions.

Communication with Those Charged with Governance

Q: What are some considerations that may be relevant to firm communications with TCWG in a COVID-19 environment?

A: The Code contains provisions addressing communication by firms to TCWG, for example, in relation to NOCLAR, (See paras. R260.14 and R360.14) independence matters generally, (See paras. 400.40 A2.) and breaches of independence requirements. (See para. R400.84.)

The COVID-19 pandemic has caused significant disruptions to entities' operations as well as how firms engage with their audit clients, including TCWG. Social distancing measures imposed by public authorities as well as safety measures taken by entities and firms might impact the approach to, and timing of, such communications. For example, there may be delays in the communication. Virtual communication channels might also need to be securely established. In some cases, the designated representative(s) of TCWG might not be accessible or available because of COVID-19 illness or other related reasons.

It is therefore important for firms to proactively engage with TCWG to agree how ethics and independence matters can be effectively raised and discussed in a timely manner. Equally, it might be necessary to agree contingency plans or alternative arrangements if circumstances change. Firms are also reminded to consider whether it is appropriate to communicate about ethics and independence issues arising from the COVID-19 pandemic to all TCWG versus a sub-group, such as an audit committee.

About the IESBA

The IESBA is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

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Published by International Federation of Accountants (IFAC), 529 Fifth Avenue, New York, NY 10017

Staff Audit Practice Alert
April 2020

COVID-19

Going Concern in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19

This publication has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to, and concluding on, the appropriateness of management's use of the going concern basis of accounting in accordance with the International Standards on Auditing™ (ISA™).

This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to going concern, as well as any modifications made to the auditor's report in respect of any uncertainties related to going concern.

Many factors impact the ability of an entity to continue as a going concern. These factors include the industry and geographic area of operations, the financial health of customers and suppliers, and financial liquidity and solvency of the entity. As a result of the COVID-19 pandemic and the associated deteriorating economic environment, reduced revenues and cash flows could raise questions about the entity's ability to meets its current or new obligations and comply with debt covenants.

This Staff Audit Practice Alert focuses on the implications of the COVID-19 pandemic for the auditor's work related to going concern, including the potential impacts on:

- Management and the auditor's respective responsibilities in relation to going concern;
- Risk assessment procedures undertaken by the auditor and their evaluation of management's assessment of the entity's ability to continue as a going concern;
- Periods beyond management's assessment;
- Additional procedures required when events or conditions are identified which may cast doubt on the entity's ability to continue as a going concern;
- Implications for the auditor's report and the auditors' consideration of Other Information; and
- Significant delays in the approval of financial statements.

In completing work related to going concern in the current environment, auditor's should focus on all the requirements set out in ISA 570 (Revised), *Going Concern*, with full consideration given to the entity's specific circumstances before any conclusions are reached. In completing the work on going concern, the importance of exercising professional skepticism is amplified, particularly where management have determined that the current circumstances are not expected to have any material financial impact on the entity and that no material uncertainties related to going concern exist for the entity.

Management's and Auditor's Responsibilities

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future, unless management intends to liquidate the entity or cease operations, or has no realistic alternative but to do so. When the going concern basis of accounting is used, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Management's Responsibilities

- **Assessing the entity's ability to continue as a going concern**, either:
  - In terms of an explicit requirement in the applicable financial reporting framework;[1] or
  - Where there is no explicit requirement in the applicable financial reporting framework, but going concern is still a fundamental principle in preparing the financial statements
- **Making a judgment at a point in time** about inherently uncertain future outcomes of events or conditions
- **Making and disclosing judgments** relevant to:
  - The degree of uncertainty associated with the outcome of an event or condition (for example, how this increases the further into the future an event or condition or the outcome occurs)
  - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors
  - The future (based on information available at the time at which the judgment is made)

Auditor's Responsibilities

- **Obtaining sufficient appropriate audit evidence**, **and concluding on**, the appropriateness of management's use of the going concern basis of accounting
- **Concluding**, based on the audit evidence obtained, **whether a material uncertainty exists** about the entity's ability to continue as a going concern
- **Reporting** as appropriate

The potential effects of inherent limitations on the auditor's ability to detect misstatements are greater for future events or conditions that may cause the entity to cease to continue as a going concern. …The absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in the auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern (ISA 570 (Revised), paragraph 7).

[1] For example, International Accounting Standard (IAS) 1, Presentation of Financial Statements, requires management to make an assessment of the entity's ability to continue as a going concern (paragraphs 25-26)

With circumstances changing rapidly due to COVID-19, this is likely to affect how management and auditors fulfill their respective responsibilities:

Management	Auditors
• Management's assessment of the entity's ability to continue as a going concern is likely to be more challenging	• A corresponding need for additional or enhanced audit procedures for the auditor to be able to conclude on the appropriateness of management's assessment with regard to going concern (areas for consideration in the current circumstances are described below in this document) • More robust procedures may assist the auditor in concluding in the current environment
• Management and those charged with governance may need to provide users of financial statements additional and more robust disclosures in the entity's financial statements relating to events or conditions affecting the entity's ability to continue as a going concern	• Changes to the auditor's report may be more readily expected (depending on the nature and circumstances of the entity) in the form of: o "Material uncertainty related to going concern" paragraphs (in accordance with ISA 570 (Revised)), where appropriate o Modifications of the auditor's opinion (i.e., qualified, adverse or disclaimers of opinion) where necessary o Enhanced or new key audit matters (where key audit matters are included in the auditor's report)

Timely and effective communication between management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern during these uncertain times.

Risk Assessment Procedures and Evaluating Management's Assessment

ISA 570 (Revised) requires the auditor, when performing risk assessment procedures as required by ISA 315 (Revised),[2] to consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, and evaluate management's assessment of the entity's ability to continue as a going concern.[3]

[2] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

[3] ISA 570 (Revised), paragraphs 10 and 12

The COVID-19 pandemic is likely to have significant implications for global economies and markets for certain industries such as hospitality, retail and travel. The downturn will result in a significant increase in both the volume and severity of events and conditions that may in some instances cast doubt on an entity's ability to continue as a going concern. However, this does not necessarily mean that a material uncertainty automatically exists—the increased risk of significant doubt on an entity's ability to continue as a going concern will rather depend on the nature and circumstances of the entity, including the industry in which it operates.

Examples of events or conditions that may exist as a result of the COVID-19 pandemic include:

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
Loss of a major market, key customer(s), revenue, labor shortages	The COVID-19 pandemic has prompted the introduction of public health measures in many countries, sometimes leading to the closure of 'non-essential business' or a change in the model of working whereby staff members are encouraged, or required in some instances, to work from home. Many businesses are likely to be adversely affected by this. For example, measures requiring the closure of non-essential stores will likely lead to lower sales if the business is unable to make up any shortfall through online sales. Demand, now and after the pandemic, is likely to change for some products and services. For example, business in the hospitality and travel industries may see a significant detrimental impact on revenues.	Has management considered the impact of: • Revenue losses • Plans to address any shortfalls • Supply chain and potential delivery issues (may impact ability to fulfill orders) • Impact of labor shortages to continue operating at planned capacity • Grants and other relief provided by governments (such as relief in the form of deferral of payments) • How long business disruption may continue to affect the entity once any restrictions have eased
Significant deterioration in the value of assets used to generate cash flows	Asset valuations, given the current uncertainty in both local and global markets, are likely to be more challenging. Valuations based on fair value, in particular, may be more challenging as values fluctuate more frequently and severely. Valuations based on projected future cash flows are also likely to be significantly more challenging, as developing robust models for cash flows into the future may be more difficult given current volatility and uncertainty.	• The reasonableness of assumptions used by management in their valuation calculations, including consistency of use across different calculations (where needed) • Whether there is known contradictory information in relation to an assumption used • If an expert has been used to assist in performing the valuation, how the expert has developed their assumptions

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
		• If, and how, in the context of management's assessment period, whether due consideration has been given to the current uncertainty present in both local and global markets, and related future prospects
Significant deterioration in the value of current assets - Inventory	Depending on the nature of the business, and the perishability of any inventories, disruption in the ability to carry on with business activities, including the closure of non-essential physical stores, may mean some entities will need to consider significant inventory write-downs. Any seasonal items of inventory may also require impairments if they cannot be sold or must be sold at reduced prices.	How management has considered: • Possible write-downs or write-offs of inventory • How business disruption may continue to affect the entity once any restrictions have eased (e.g., the continuation of reliable supply chains)
Delay in the launch of new products or services	Many businesses, as a result of reduced demand or availability of parts or components, have seen a need to delay the launch of new products or services. Where an entity's going concern status may have been dependent on the imminent launch of a product or service, it's delay may have a detrimental impact on the entity's ability to continue as a going concern.	• How management has taken into account the financial impact on the entity of the delay in launch, including other associated costs such as legal or other committed costs
Foreign exchange fluctuations	Foreign exchange rates have fluctuated significantly. Entities with significant international transactions may need to factor in unexpected losses (or gains) on foreign currency purchases, on sale contracts, receivables or debt denominated in foreign currencies, or on forward exchange or other derivative contracts.	• How have foreign exchange fluctuations been taken into account, including the impact of any hedging arrangements to reduce uncertainty • Whether sensitivity on movements in exchange rates has been taken into account

<table>
<tr><th>Event or Condition</th><th>Potential impact on management's assessment of going concern</th><th>Potential matters for auditor consideration when evaluating management's assessment</th></tr>
<tr><td>Measurements affected by increased uncertainty</td><td>Entities will need to determine whether, and the degree to which, future cash flows have been impacted by increased uncertainty (e.g., calculations based on fluctuating rates such as interest rates or foreign exchange rates), taking into account:
The unknown nature of the future
The duration of the COVID-19 pandemic
The timing of when the future cash flows may be expected</td><td>In evaluating management's assessment of the impact of future fluctuating rates and other relevant factors influencing future cash flows, the auditor may focus on:
The underlying assumptions, including the consistency of these with other areas of the audit
The source used to determine the reasonableness of the assumptions
Whether sensitivity has been considered with respect to movements in fluctuating rates</td></tr>
<tr><td>Counterparty credit risk</td><td>Entities will need to determine whether there is significant counterparty credit risk, i.e., when the entity has significant financial assets and whether the counterparty intends, or is able to, honor the contract</td><td>How management has assessed the recoverability of financial assets, including whether the assumptions used are reasonable and consistent with other information known to the auditor</td></tr>
<tr><td>The entity's solvency</td><td>Government support is, at the moment, generally focused on providing short-term liquidity to businesses requiring support. Actions taken by entities now to maintain liquidity, such as deferral of payments or receipts of grants to offset costs, may potentially affect the entity's longer-term solvency.</td><td>How management has assessed the entity's longer- term solvency, including communication management have had with their finance providers (e.g., banks and other lenders) regarding longer term solvency and covenants
How management has performed any 'stress-testing' that may help understand the solvency risks of the entity, and whether the assumptions used in the stress testing adequately reflect the possible circumstances</td></tr>
</table>

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
		• How the entity will be able to repay any additional loans taken • How the entity will meet previously deferred payments • How management has taken into account any regulatory guidance issued to alleviate the impact of the COVID-19 pandemic

Period Beyond Management's Assessment

ISA 570 (Revised), paragraph 15, sets out that the auditor shall inquire of management as to its knowledge of events or conditions, beyond the period of management's assessment, that may cast significant doubt on the entity's ability to continue as a going concern.

The period for which management's assessment is required is set out in the applicable financial reporting standards or is determined by law and regulation if a longer period is required. ISA 570 (Revised) requires that the same period be used unless the period is less than 12 months, in which case the auditor is required to request that management extend its assessment to 12 months from the date of the financial statements.[4]

Though longer-term events or conditions, beyond the period of management's assessment, may be more challenging to identify in the current circumstances, the COVID-19 pandemic is likely to impact many entities significantly, such as the longer-term disruption of supply chains. This may lead to short-term disruption (for example many businesses may be struggling to source supplies), but also a longer-term inability to process or fulfil orders if supply chains are slow to recover. Auditors may consider how management are seeking to resolve supply chains issues, what alternatives might exist and the timescale for any potential resolution.

Additional Procedures When Events or Conditions are Identified

ISA 570 (Revised), paragraph 16, sets out that "if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors."

[4] ISA 570 (Revised), paragraph 13

As it is likely that the COVID-19 pandemic will result in events and conditions that may cast significant doubt on an entity's ability to continue as a going concern, it is also more likely that auditors may need to perform the additional procedures in accordance with ISA 570 (Revised), paragraph 16. In addition, the auditor may also wish to consider whether management has:

- Developed and implemented actions and processes so that they can continue to operate an effective control environment, in particular how key reporting and other significant controls have been addressed in changed circumstances.
- Considered how they will secure reliable and relevant information, on a continuing basis, in order to manage the future operations, including, for example, the flow of financial information from other parts of the business, e.g., branches and divisions.

Paragraph A16 of ISA 570 (Revised) also includes some further examples of audit procedures that may be relevant to the requirement in paragraph 16 in the circumstances.

Auditor's Additional Procedures—Paragraph 16 Requirement	**Auditor's Procedures—Relevant Paragraph A16 Example**	**Auditor Focus in the Current Circumstances**
Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action: (i) Evaluate the reliability of the underlying data generated to prepare the forecast; and (ii) Determine whether there is adequate support for the assumptions underlying the forecast.	Analyzing and discussing cash flow, profit and other relevant forecasts with management.	• Previously prepared budgets and forecasts may be of less relevance because of the rapidly changing economic environment and may require significant revision by management before being considered by the auditor. • Given how uncertain and volatile global markets are, forward looking forecasts are likely to be more difficult to make, and therefore audit. Accordingly, areas of focus could include: o Any assumptions used, and if they are reasonable given the current circumstances. For example, lenders giving new or extended credit facilities may incur additional charges for highly exposed industries or exchange fluctuations on foreign denominated debt may severely impact future cash flow forecasts. o The consistency of the same assumptions used by the entity for different purposes. o How any sensitivity analysis that has been performed has been used to substantiate the assumptions applied, or if different scenarios have been

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
		prepared to reflect the rapid changes in the environment, how this has impacted management's assessment. o Contractual arrangements that have been modified may impact future cash flow forecasts. o Changes needed to expected taxes because of changes to tax rates or tax laws (e.g., some jurisdictions may have implemented support measures through adjustments in the tax system). Regular updates to management's assessment and the auditor's evaluation may be required given the evolving nature of the outbreak.
Evaluate management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.	Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.	Globally, governments have announced packages of measures to support business, often focused on providing liquidity to cover business costs. For example, in some countries, grants have been provided to pay a certain amount of salary costs for an interim period. In some jurisdictions, governments have also acted to encourage the banking sector to provide emergency loans to businesses in need (in particular in relation to smaller businesses) and to be more flexible regarding breaches of covenants. In evaluating management's assessment of going concern of an entity, auditors may consider, for example, the extent to which an entity is relying on such support (if available) and whether it is sufficient to cover any short term liquidity issues, as well as if the conditions attached to any support are likely to be met by the entity. Auditors' may also consider: • Reviewing recent correspondence with debt issuers to obtain an understanding of the likelihood of continued support. • The feasibility and impact of any restructuring plans to cut operating costs.

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
		• The ability to pay when costs that have been deferred come due.
	Reading the terms of debentures and loan agreements and determining whether any have been breached.	As the financial impact of the COVID-19 pandemic is likely to be significant to some entities, it is important that the auditor considers the impact of weakened credit ratings and whether any covenants have been breached, or could be breached, and how management intends to resolve the matter with the debt issuer. For example, breaches may arise as a result of temporary changes in the entity's reported earnings, suspension of business or other material adverse event clauses, or as a result of unavoidable delays in providing debt issuers with audited financial statements, covenant compliance certificates, or third-party valuations. Another consideration is in relation to measures taken in some jurisdictions with regard to debt covenants. For example, in some jurisdictions, prudential regulators have appealed to debt providers to consider carefully their responses to potential breaches of covenants arising directly from the COVID-19 pandemic and its consequences, including not to impose new charges or restrictions on customers in certain circumstances.
	Confirming the existence, terms and adequacy of borrowing facilities.	Some entities may need to rely more on borrowing or credit facilities as the COVID-19 pandemic impacts them financially in the near to medium term. Therefore, the auditor's consideration of the existence of both short-term liquidity and longer-term solvency arrangements with lenders is also an important factor in supporting the auditor's conclusion regarding going concern.

Implications for the Auditor's Report

ISA 570 (Revised), paragraphs 17 and 18 require auditors to:

- ***Evaluate whether sufficient appropriate audit evidence has been obtained regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.***
- ***Based on the evidence obtained, conclude whether, in their judgment, a material uncertainty exists relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.***

While the impact of the COVID-19 pandemic may amplify events or conditions giving rise to modifications to the auditor's report or opinion, it does not in itself mean a modification is inevitable–this will depend on the facts and circumstances of each entity.

Disclosures Related to Going Concern

The applicable financial reporting framework sets out the specific disclosure requirements related to the going concern of the entity, including significant judgments and assumptions. Specific disclosures are ordinarily required when management concludes that there is significant doubt as to the entity's ability to continue to as a going concern (for example for a period of 12 months from the date of the financial statements). In addition, other disclosures regarding risks may also be required, such as how management is managing its liquidity and credit risks.

In the current circumstances, given the uncertainty about the immediate outlook for many entities, more audited financial statements will likely include expanded disclosures about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

There may also be circumstances where financial statements prepared in accordance with a fair presentation framework may require additional disclosures to achieve fair presentation. For example, in evaluating the fair presentation of the financial statements, and depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation notwithstanding that there are no explicit requirements for such disclosure by the applicable financial reporting framework.

ISA 570 (Revised), paragraphs 19 and 20, require the auditor to determine whether the financial statements provide adequate disclosure about the identified events or conditions related to going concern and, as applicable, management's plans in this regard.

The required level of disclosure will depend on the facts and circumstances of each entity – not all entities are affected by the current evolving environment to the same extent or in the same manner. The auditor uses professional judgment in determining the adequacy of the disclosures and the implications of inadequate disclosures on the auditor's opinion or within the auditor's report.

Implications on the Auditor's Report

The Appendix to ISA 570 (Revised) provides illustrative examples of Auditor's Reports Relating to Going Concern

The potential implications for the auditors' report, based on the auditor's judgment in light of the facts and circumstances should concerns about going concern be identified, are summarized in the table below:

Auditor's Conclusion (in the Auditor's Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor's Report [5]	ISA 570 (Revised) Reference
• Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have been made	• An unmodified opinion is expressed • A separate section is included under the heading **"Material Uncertainty Related to Going Concern,"** which also draws attention to the relevant disclosures within the financial statements	Paragraph 22
• Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have NOT been made	• A **qualified** or **adverse** opinion is expressed, as appropriate in accordance with ISA 705 (Revised)[6] • State in the **"Basis for Qualified (Adverse) Opinion"** section of the report that a material uncertainty exists that may cast a significant doubt on the entity's ability to continue as a going concern and that the matter is not appropriately disclosed in the entity's financial statements	Paragraph 23

[5] Examples of auditor's reports in various circumstances where relevant going concern issues have been concluded on are presented in the Appendix to ISA 570 (Revised).

[6] ISA 705 (Revised), *Modification to the Opinion in the Independent Auditor's Report*

Auditor's Conclusion (in the Auditor's Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor's Report [5]	ISA 570 (Revised) Reference
• Financial statements have been prepared on a going concern basis • The use of the going concern basis of accounting is inappropriate	An **adverse** opinion is expressed	Paragraph 21
• The entity is not a going concern • The financial statements have been appropriately prepared on a basis other than going concern • The alternative basis of accounting is appropriate in the circumstances	• An **unmodified opinion** may be able to be expressed if there is adequate disclosure about the basis of accounting on which the financial statements are prepared • It may be considered appropriate to include an emphasis of matter paragraph in accordance with ISA 706 (Revised)[7] drawing the user's attention to the alternative basis of accounting and the reasons for its use	Paragraph A27

In considering the implications on the auditor's report, the auditor also considers whether sufficient appropriate audit evidence has been obtained to be able to conclude on management's assessment of going concern. If the auditor is unable to obtain sufficient appropriate audit evidence in the current environment, the auditor determines the effect on the auditor's report in accordance with ISA 705 (Revised). For example, having greater difficulty in obtaining evidence regarding future forecasts may lead to a limitation of scope. Auditor reporting is addressed more generally in a separate Staff Alert: *Auditor Reporting in the Current Evolving Environment–Audit Considerations Due to the Impact of COVID-19.*[8]

Key Audit Matters

Key audit matters are included in the auditor's report in accordance with ISA 701[9] to focus on those matters that, in the auditor's professional judgment, were of most significance in the audit of financial statements of the current period.

A matter giving rise to a material uncertainty related to going concern is by its nature a key audit matter as contemplated in ISA 701.[10] In the current environment it is also likely that for some entities significant auditor judgments will be needed with regard to the auditor's conclusions on management's use of the going concern basis of accounting, which may therefore be determined to be a key audit matter.

Communicating key audit matters is not a substitute for reporting in accordance with ISA 570 (Revised) when a material uncertainty related to going concern exists, as described above. ISA 701, paragraph 15, explains that matters giving rise to a modified opinion in accordance with ISA 705 (Revised) or a material

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7 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

8 To be published early May 2020

9 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

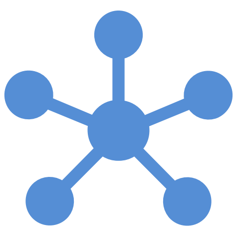
10 ISA 701, paragraph 15

uncertainty related to going concern in accordance with ISA 570 (Revised), shall not be described in the Key Audit Matters section of the auditor's report. Rather, the auditor shall report on these matters as required by ISA 705 (Revised) or ISA 570 (Revised), respectively, and include in the Key Audit Matters section a reference to the relevant sections included in the auditor's report in accordance with these ISAs.

Communication with Those Charged with Governance

ISA 570 (Revised), paragraph 25, sets out the requirements for communication with those charged with governance when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. The required communication includes whether the events or conditions constitute a material uncertainty, the appropriateness of management's use of the going concern basis, the adequacy of the related disclosures in the financial statements and the implications for the auditor's report, where applicable.

Regular and effective communications with those charged with governance is likely to be even more important in the current environment. The impact of the COVID-19 pandemic on entities is rapidly changing. Events are occurring at such a pace that considerations made may no longer be valid even a short time after they have been factored into either management's or the auditor's, assessments. The auditor should consider how he or she plans to communicate with those charged with governance in a timely manner, with regard to both reporting and other matters required to be communicated.



Potential Impact on the Auditor's Considerations in Relation to Other Information in Accordance with ISA 720 (Revised)[11]

Some jurisdictions may require additional reporting within the 'Other Information' in the annual report. For example, in some jurisdictions, management may need to comment on an entity's long-term viability or strategy.

The auditor's responsibilities relating to Other Information are contained within ISA 720 (Revised) including when matters are disclosed in the 'Other Information' related to an entity's going concern or viability or strategy. While reading the other information the auditor is required to, among other matters:

- Consider whether there is a material inconsistency between the Other Information and the financial statements. As the basis for this consideration, the auditor shall compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and
- Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

ISA 720 (Revised), paragraphs 16 to 19, explains the auditor's response, including setting out appropriate actions, if a material inconsistency is identified or when the auditor concludes that a material misstatement of the other information exists.

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

Significant Delays in the Approval of Financial Statements

ISA 570 (Revised), paragraph 26, requires that if there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16 of ISA 570 (Revised), as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18 of ISA 570 (Revised).

The COVID-19 pandemic may be a contributing factor to a delay in the approval of financial statements, with some jurisdictions already allowing extensions to filing deadlines. If a significant delay occurs, auditors should consider the ISA 570 (Revised) requirements described above and ensure that communication with management and those charged with governance remains open and effective, allowing both auditors and those charged with governance to fulfil their respective responsibilities despite the significant delay in approval of the financial statements.

Documentation

ISA 230[12], paragraph 8, requires the auditor to document the nature, timing and extent of the audit procedures performed, the results of the audit procedures performed, and the audit evidence obtained, as well as significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Accordingly, it is expected that the auditor's procedures with regard to going concern would be documented to explain how the auditor's conclusions have been determined, and which would form the basis for the auditor's report, including any modifications to the opinion or other changes needed to the auditor's report.

[12] ISA 230, *Audit Documentation*

Webinar Series – Practical Audit Quality Considerations for Auditing in the Pandemic Environment
July 2020

International Federation of Accountants®

Webinar 2: Performing the Audit in the Pandemic Environment

Summary of Key Takeaways

Panelists

- **Webinar Chair: Paul Ginman**
  Member, IFAC Transnational Auditors Committee &
  Chief Operating Officer & Global Head of Quality, Nexia International
- **Sue Almond**
  Member, International Auditing and Assurance Standards Board (IAASB) &
  Global Head of Assurance, Grant Thornton International
- **Jennifer Chowhan**
  HLB International [Member, Forum of Firms] &
  Partner, Millards, Canada
- **Klaus Bertram**
  Member, IFAC Small and Medium Practices Advisory Group &
  Founder and Managing Partner of DELTA Revision GmbH, Mannheim, Germany
- **Megan Zietsman**
  Chief Auditor and Director of Professional Standards
  United States Public Company Accounting Oversight Board (PCAOB)
- **Ralph Weinberger**
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International Federation of Accountants®

Introduction

The pandemic environment has led to measures such as social distancing which have changed the way that auditors and their clients perform their work. The environment is also significantly changing the economic realities for many entities and the change is continuing. Auditors need to be ready to react, while ensuring they maintain a commitment to audit quality and adherence to professional standards.

In the second of a three-part webinar series, IFAC convened a panel of audit experts to share their perspectives and practical insights on performing the audit in the pandemic environment.

This document provides a summary of key takeaways from the discussion. The full recording of the session can be accessed here.

Audit Evidence

Restricted physical access to client sites is requiring auditors to design and perform alternative audit procedures to gather sufficient, appropriate audit evidence through remote access and greater reliance on technology. In doing so, the need to evaluate the sufficiency and appropriateness of audit evidence and to maintain professional skepticism is as high as it has ever been.

OBTAINING AUDIT EVIDENCE REMOTELY	
Challenges	**Practical considerations**
Physical access to client documentation may not be possible. Auditors will need to design and perform alternative audit procedures to obtain sufficient, appropriate audit evidence remotely, while still meeting the requirements of auditing standards.	Deciding how to obtain audit evidence and the appropriateness of evidence will depend on the specific facts and circumstances of the audit, and the nature of specific risks identified. Alternative approaches may include: • Gathering more electronic evidence or scanned documentation from the client or through electronic third-party confirmations. • Using technology to perform procedures like walkthroughs and testing of controls, via live screenshares and live videos. The auditor must consider the reliability of audit evidence and it is important to obtain an understanding of the client's processes and controls in place over its preparation. Auditors may also need to consider how it can be authenticated, and whether further corroborating evidence from internal and/or external sources may be required. If the auditor is unable to obtain sufficient appropriate audit evidence remotely, they may need to consider whether the audit report can be delayed, or where it cannot, the impact on the auditor's report, including whether a modified opinion is needed. Performing an audit of a new client may be more challenging where auditors are not as familiar with client staff and have no prior understanding of the entity and its environment. Access to the information from the previous auditors may be useful to help in these circumstances but may also be difficult to obtain in some jurisdictions where access may not be easy, or in some cases even permitted.

INVENTORY

Challenges	Practical considerations
Clients may not be able to undertake a physical year-end inventory count, or even where they are able to, the auditor may not be able to attend in person.	The facts and circumstances of each entity and audit need to be carefully considered before determining the best way to obtain sufficient appropriate audit evidence about the existence and condition of the inventory. For example, the risks of material misstatement due to error or fraud (including new pressures and opportunities), the effectiveness of the entity's internal controls and whether the auditor has other sources of evidence such as cycle counts attended during the period, among others. The standards require the auditor to attend the entity's inventory count, but also contemplate rollback procedures in circumstances where the count may not be conducted and attended on the final day of the audit period. This may provide an opportunity for the inventory count to be delayed and attended by the auditor. In some circumstances the auditor may be able to effectively observe the count remotely. Although there are many considerations, including entity-specific considerations, before concluding a remote observation will provide sufficient appropriate audit evidence, a few examples factors include whether: • It is possible to set up a live feed and get a visual of the entire operation to effectively see how the count is undertaken • There is someone independent of the entity's staff responsible for inventory who can operate the camera or other recording device • Reconciliations and other documentation can be captured live, and the auditor can request boxes to be opened if there are queries • Further evidence is required and available, for example results of previous perpetual or periodic inventory counts. If the audit client cannot undertake an inventory count, the auditor will need to carefully consider and challenge how management has calculated its inventory figures. Again, the auditor will need to carefully consider the facts and circumstances and whether there are other means of obtaining sufficient appropriate audit evidence. Examples of alternative procedures could include testing inventory roll forwards, and inspection of post year-end inventory sales documentation of items acquired before year-end. If the auditor is unable to obtain sufficient appropriate audit evidence about the existence and condition of inventory, they may need to consider whether the audit report can be delayed, or where it cannot, the impact on the auditor's report, including whether a modified opinion is needed.

DOCUMENTATION	
Challenges	**Practical considerations**
Significant uncertainties and a rapidly changing environment are requiring management and the auditor to make more complex judgments. Properly documenting these is important.	More documentation of thought processes in areas of significant judgment may be required. *"Management goes first".* The auditor needs to consider the reasonableness of management's assessments in areas such as going concern and other accounting estimates. Applying professional skepticism to the judgments made and assumptions used by management is crucial. Both management and the auditor will need to base their decisions on known facts and circumstances at the time. Timely documentation is crucial in the current environment. Judgments may seem reasonable at a point in time, but not necessarily when considered in hindsight where circumstances have considerably changed. Clear documentation of professional judgments made by the auditor is important to explain the auditor's rationale for judgments in the circumstances at the time they were made.

Accounting Estimates

By their very nature accounting estimates involve subjective assumptions and measurement uncertainty and can involve complex processes and calculation methods. They impact many areas of the financial statements. In the current environment, it will likely be more difficult for management to determine assumptions, obtain data and develop estimates. This in turn makes auditing accounting estimates more challenging and the exercise of professional skepticism will be essential in considering and challenging management's judgments and assumptions.

Challenges	Practical considerations
Some entities may not have faced an environment of heightened estimation uncertainty like this before and may need to establish more robust approaches for calculating estimates. In turn, the auditor may need to perform additional procedures to assess whether the accounting estimates made by management and the related disclosures are reasonable in the context of the continually changing	Management needs to implement robust processes and controls around the calculation of accounting estimates. Historic approaches that entities have taken to data assumptions or methods may need to change. Assumptions such as projections of revenue or future cash flow may be difficult to make, and entities will need to apply a multiple scenario approach. Considerations for the auditor in auditing management's estimates include: • Ensuring early engagement with clients to understand how they are addressing challenges in developing accounting estimates, as well as ensuring clients are aware of the level of documentation they need to provide to the auditor. • Whether an additional auditor expert is needed, e.g. a valuation expert. The auditor also needs to be mindful that in light of the uncertain economic environment, experts may include more caveats in valuation reports.

Challenges	Practical considerations
and uncertain economic environment.	• Sense checking judgments as the audit progresses and revisiting risk assessment and responses where necessary. • Being alert to an increased risk of fraud or management bias, and the importance of maintaining professional skepticism and thoroughly stress testing management's analysis and assumptions. • Assessing the extent of uncertainty in estimated values and whether there is a pervasive effect on the financial statements, that would require a modification to the audit report. • Assessing the transparency of management's disclosures on the level of uncertainties. For further guidance on auditing accounting estimates, see the IAASB Staff Audit Practice Alert: Auditing Accounting Estimates in the Current Evolving Environment Due to Covid-19

Engagement Quality Reviews

Different firms will have different thresholds for requiring engagement quality reviews but given the complexity of the pandemic environment, the increased pressures and uncertainties, and a possible increase in situations where the auditor needs to consider modifications to the audit report, it is likely that more engagement quality reviews will be needed.

Challenges	Practical considerations
The purpose of an engagement quality review has not changed, but the approach to the review may need to be different in a remote working environment.	Effective communication between the reviewer and the audit team is important to maintain virtually. Auditors are having to make more significant judgments than ever before throughout all stages of the audit, and the reviewer will need to undertake an objective evaluation of these. It may be beneficial to have the reviewer look at significant judgment areas sooner rather than later. A small or medium sized practice may need to engage with an external reviewer outside of their own practice.

For further guidance on Audit and Financial Reporting considerations due to COVID-19, please refer to IFAC's dedicated webpages on both topics:

For further COVID-19 related guidance on audit and ethics from the standard-setting boards, please refer to their webpages:

IAASB: Guidance for Auditors During the Coronavirus Pandemic

IESBA: COVID-19: Ethics & Independence Considerations

Published by: IFAC International Federation of Accountants®

IAASB

Staff Audit Practice Alert
June 2020

COVID-19

Auditing Accounting Estimates in the Current Evolving Environment Due to COVID-19

This publication has been prepared to highlight key areas of focus in the current environment when undertaking audit procedures relating to accounting estimates and related disclosures in accordance with the International Standards on Auditing™ (ISA™).

This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to auditing accounting estimates and related disclosures.

Further support materials related to the financial reporting implications of the COVID-19 pandemic can be found at the International Federation of Accountants' (IFAC) website.[1]

This publication is based on the requirements and guidance in ISA 540 (Revised), which is effective for audits of financial statements beginning on or after December 15, 2019. Auditors performing an audit under extant ISA 540 (e.g., for an entity with a June 2020 year-end) may still find this guidance useful in the current circumstances as ISA 540 (Revised) expands on the extant standard. For example, ISA 540 (Revised) includes more detailed requirements and application material relating to methods (including models), assumptions and data, and the consideration of inherent risk factors that may give rise to risks of material misstatement of an accounting estimate.

The COVID-19 pandemic has widespread global impacts on economies, markets and businesses, giving rise to significant volatility and considerable uncertainty. In such unpredictable circumstances, auditors will need to focus on the potential impacts of this volatility and uncertainty when auditing accounting estimates.

Management's Responsibility for Accounting Estimates and Related Disclosures

Management is responsible for the recognition and measurement of accounting estimates and related disclosures in accordance with the applicable financial reporting framework. Financial reporting frameworks often require forward-looking information as the basis for recognition and measurement, or disclosures, in the financial statements. Because of this, accounting estimates are a fundamental part of the financial statements for many entities.

Given the uncertainties related to the COVID-19 pandemic, it will likely be more difficult for management to determine the assumptions and obtain the data used to develop accounting estimates, in particular future cash flows. The impact on the business environment and global economies from the COVID-19 pandemic could also result in triggers for impairment testing.

1 IFAC's website also contains further audit considerations arising from the COVID-19 pandemic.

The Auditor's Responsibility for Accounting Estimates and Related Disclosures

ISA 540 (Revised)[2] sets out the requirements for auditors when auditing accounting estimates and related disclosures. Given the current environment, it is likely that additional, or more robust, procedures may be needed when responding to assessed risks of material misstatement in relation to accounting estimates and related disclosures.

In designing and performing audit procedures with respect to accounting estimates and related disclosures, and taking into account the increase in professional judgment needed by management, the exercise of professional skepticism, and the auditor's demonstration thereof, is critical to support the auditor's conclusions.

This Staff Audit Practice Alert focusses on the following areas:

- Risk assessment procedures and related activities;
- Identifying and assessing the risks of material misstatement;
- Responding to assessed risks of material misstatement;
- Disclosures;
- Implications for the auditor's report; and
- Management bias and fraud.

Risk Assessment Procedures and Related Activities

Paragraphs 13–15 of ISA 540 (Revised) describe the risk assessment procedures and related activities required for accounting estimates. These paragraphs refer to and expand on how ISA 315 (Revised)[3] is to be applied. The table below highlights certain matters the auditor may want to focus on when performing risk assessment and related activities with respect to accounting estimates.

Relevant Matter	Examples
Regulatory Factors (ISA 540 (Revised), paragraph 13(c))	As a result of the COVID-19 pandemic there may be: • Temporary changes to the regulatory framework that may need to be understood, and the impact thereof considered. For example, the European Central Bank temporarily eased capital requirements so that banks can help markets function properly during the COVID-19 outbreak. • Initiatives aimed at sustainable solutions for temporarily distressed debtors. • Changes to financial reporting deadlines for entities, which may also extend the period for the auditor's consideration of subsequent events. Movements in assumptions during this period may impact the amounts or disclosures related to accounting estimates.

2 ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

3 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<table>
<tr><th>Relevant Matter</th><th>Examples</th></tr>
<tr><td>Relevant methods,[4] assumptions[5] or data,[6] and the need for changes in them

(ISA 540 (Revised), paragraph 13(h)(ii))</td><td>In the current environment, it is likely that auditors may need to consider whether management has assessed the continued use of previous methods, assumptions and data, and if not, whether the methods, assumptions and data used remain appropriate.

In light of the evolving environment, the following highlights matters the auditor may want to consider:

Methods[7]

• Whether the model has been appropriately changed or adjusted on a timely basis for changes in market or other conditions. Because of the changed environment, previously used models may not be appropriate anymore;
• Whether new adjustments have been made, or should have been made, to the output of the model;
• Whether the adjustments to the output of the model are appropriate in the circumstances in accordance with the applicable financial reporting framework;

Assumptions[8]

• The basis for management's selection of assumptions. The applicable financial reporting framework may provide criteria or guidance to be used in the selection of an assumption;
• How management assesses whether the assumptions used are relevant and complete;
• When applicable, how management determines that the assumptions are applied consistently across other areas of the financial statements; and</td></tr>
</table>

4 A method is a measurement technique used by management to make an accounting estimate in accordance with the required measurement basis. A method is applied using a computational tool or process, sometimes referred to as a model, and involves applying assumptions and data and taking into account a set of relationships between them.

5 Assumptions involve judgments based on available information about matters such as the choice of an interest rate, a discount rate, or judgments about future conditions or events.

6 Data is information that can be obtained through direct observation or from a party external to the entity.

7 ISA 540 (Revised), paragraph A39

8 ISA 540 (Revised), paragraph A40

Relevant Matter	Examples
	Data[9] • How management evaluates whether the data used is appropriate. Because of the COVID-19 pandemic, the data used in previous periods may not be appropriate anymore. For example, management may ordinarily use historical credit losses on a large group of trade receivables to estimate expected credit losses on its trade receivables. This data may not be appropriate anymore as the data does not reflect the current economic conditions. Therefore, management may need to use different data, or need to make adjustments to the output of the model (as described above).
Understanding Controls (ISA 540 (Revised) paragraph 13(i))	Although businesses may be operating in different ways to adapt to the current environment, the auditor is still required to obtain an understanding of internal control relevant to the audit (i.e., control activities). This includes, where applicable, relevant controls over management's process for making accounting estimates, for example, whether changes have been made for controls related to the review and approval of accounting estimates. If management has designed new controls, or controls have changed, that are relevant to the audit, the auditor is required to evaluate their design and determine whether they have been implemented.
Specialized skills or knowledge of the engagement team (ISA 540 (Revised), paragraph 15)	As a result of the COVID-19 pandemic, the auditor may determine that the engagement team requires specialized skills or knowledge. For example, the auditor may require the assistance of a valuation expert because current conditions may indicate that industry averages or historical results are no longer appropriate, or may need to be supplemented with other information, to evaluate management's assumptions used in a valuation model (e.g., discount rates). ISA 540 (Revised), paragraph A61, describes matters that may affect the auditor's determination of whether the engagement team requires specialized skills or knowledge.

Identifying and Assessing the Risks of Material Misstatement

ISA 540 (Revised), paragraphs 16–17, describe the identification and assessment of the risks of material misstatement related to accounting estimates. These paragraphs refer to, and expand on, how ISA 315 (Revised) is to be applied in relation to accounting estimates. Depending on the nature of the accounting estimate, the degree of uncertainty in the outcome of events or conditions underlying significant assumptions, and lack of available observable data, are likely to impact the auditor's work in relation to accounting estimates.

9 ISA 540 (Revised), paragraph A44

ISA 540 (Revised) includes inherent risk factors to assist the auditor in identifying and assessing the risks of material misstatement, including:

- Estimation uncertainty;
- Complexity; and
- Subjectivity.[10]

Inherent risk factors may, either individually or in combination, affect accounting estimates to a greater or lesser degree, and assist the auditor to assess inherent risk on the spectrum of inherent risk. The relevance and significance of inherent risk factors may vary from one estimate to another. In the current environment, the effect of the inherent risk factors may be amplified and may result in identified risks being assessed higher or at the higher end of the spectrum of inherent risk, which in turn will influence the persuasiveness of the audit evidence needed in responding to the assessed risks.

In assessing the risks of material misstatement, the auditor may also consider whether previously identified risks are now significant risks[11] in light of the current circumstances.

The table below highlights, for each of these inherent risk factors, matters the auditor may want to consider because of the COVID-19 pandemic, and which may assist with the identification and assessment of the risks of material misstatement.

Inherent Risk Factor	Matter for Consideration
Estimation Uncertainty (ISA 540 (Revised), paragraph 16(a))	As the trajectory and expected duration of the COVID-19 pandemic is uncertain, there may be a wide range of possible outcomes, resulting in a high degree of estimation uncertainty. In some circumstances, the estimation uncertainty may be so high that a reasonable accounting estimate cannot be made. In other cases, the estimation uncertainty relating to an accounting estimate may cast significant doubt about the entity's ability to continue as a going concern. ISA 540 (Revised), paragraphs A74 and A75, provide further guidance in such circumstances.
Complexity (ISA 540 (Revised), paragraph 16(b))	The degree to which the accounting estimate is subject to complexity may be impacted by the COVID-19 pandemic in different ways: • Governmental support packages or other changed laws or regulations being introduced may result in changes to the measurement of the accounting estimate. • Changes in contractual terms related to the accounting estimate. • The use of a different model to make the accounting estimate because of the availability of observable assumptions.

10 ISA 540 (Revised), paragraph 16

11 If a risk is determined to be a significant risk, there are additional procedures to be undertaken including work on related controls relevant to the audit and communications with those charged with governance.

Inherent Risk Factor	Matter for Consideration
	• Complex financing arrangements may be entered into to support the entity's ability to continue as a going concern. • A new model may need to be developed for the current circumstances.
Subjectivity (ISA 540 (Revised), paragraph 16(b))	Estimation uncertainty gives rise to subjectivity, and hence, the need for the use of judgment in making the accounting estimate. When the degree of estimation uncertainty increases, the degree of subjectivity also increases. The COVID-19 pandemic has resulted in increased subjectivity in: • Assumptions with long forecast periods. • Assumptions based on data that is currently unobservable. • Assumptions based on data that is so volatile that it is not reliable. • Balances where it is difficult to make reliable forecasts about the future. Examples of accounting estimates most likely to be affected include: • Impairment of goodwill, non-financial assets (e.g., intangible) and financial assets (e.g., trade receivables). • Fair value of financial assets (investments and receivables). • Fair value of financial liabilities. • Restructuring liabilities. • Percentage of completion of construction contracts. • Recoverability of deferred tax balances. • Pension assets and liabilities. • Lease obligations. When there is a high degree of subjectivity, the accounting estimate is likely to be more susceptible to management bias (see section on "Management Bias and Fraud" below).

In addition to the matters above, the auditor may consider:

- Whether the assessments of the risks of material misstatement at the assertion level remain appropriate. For example, even if the recoverability of receivables was not considered a potential risk of material misstatement, debtors may not be able to make timely payments in the current environment. Accordingly, auditors may need to reassess previous assessments of the related risk of material misstatement.
- Whether, based on the revised consideration of assessed risks, there may be a need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures. The auditor may also communicate with those charged with governance about such matters.[12]

[12] See ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph A26

Responses to Assessed Risks of Material Misstatement

ISA 540 (Revised), paragraphs 18-30, address responses to the assessed risks of material misstatement of accounting estimates. These paragraphs refer to, and expand on, how ISA 330[13] is to be applied in relation to accounting estimates. ISA 540 (Revised) identifies the following testing strategies:

- Obtaining audit evidence from events occurring up to the date of the auditor's report;
- Testing how management made the accounting estimate; or
- Developing an auditor's point estimate or range.

Because of the effects of the COVID-19 pandemic there may be more instances where audit work is delayed (e.g., owing to the extension of reporting deadlines or in relation to access to information to be used as audit evidence), and therefore audit evidence from events occurring up to the date of the auditor's report may be more readily available. In addition, the pandemic may particularly impact the latter two testing strategies as these approaches require the auditor to perform procedures on the methods, assumptions or data used to make the accounting estimate. The table below highlights some matters the auditor may want to consider in light of the current environment:

Relevant Matter	Matter for Consideration
Methods (ISA 540 (Revised), paragraph 23)	• Whether the method is appropriate in the circumstances given the nature of the accounting estimate, the applicable financial reporting framework, other available valuation concepts or techniques, regulatory requirements, and the business, industry and environment in which the entity operates. Methods used in previous years may no longer be appropriate given the changed circumstances. • When management has determined that different methods result in a range of significantly different estimates, how management has investigated the reasons for these differences. • When applicable, whether adjustments to the output of the model are consistent with the measurement objective of the financial reporting framework and are appropriate in the circumstances. Given the current circumstances, management may need to make different, or more, adjustments than in prior years. When the adjustments are not appropriate, such adjustments may be indicators of possible management bias (see section on "Management Bias and Fraud" below).
Significant assumptions (ISA 540 (Revised), paragraph 24)	• Whether the significant assumptions are appropriate in the circumstances given the nature of the accounting estimate, the applicable financial reporting framework, and the business, industry and environment in which the entity operates. Specific matters for consideration may include: o Addressing whether significant assumptions are appropriate. This may be particularly challenging in this environment, for example, forecasted revenues and cash flows may be highly uncertain and the road to recovery

13 ISA 330, *The Auditor's Responses to Assessed Risks*

Relevant Matter	Matter for Consideration
	is unclear (especially in certain industries). These assumptions may also span multiple account balances (e.g., forecasted revenues may be relevant for impairment tests and recognition of deferred tax assets). o Obtaining a management-provided sensitivity analysis, which may provide the auditor an understanding of the range of potential outcomes for alternative assumptions and whether management selected an "optimistic" or "pessimistic" scenario. Given the uncertainty because of the COVID-19 pandemic, a sensitivity analysis may be particularly important to determine the effect of changes in the significant assumptions on the accounting estimate and the impact that may have on the entity's financial position. • Whether the significant assumptions are consistent with each other, and with those used in other accounting estimates. • When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so. This may be particularly important in the current circumstances because some courses of action may be restricted by the government and the entity may not have the liquidity, or access to liquidity, to consider or pursue other courses of action.
Data (ISA 540 (Revised), paragraph 25)	• Whether the data is appropriate in the circumstances given the nature of the accounting estimate, the applicable financial reporting framework, and the business, industry and environment in which the entity operates. For example: o Contracts are considered data under ISA 540 (Revised). In the current environment, entities may renegotiate the terms of existing contracts and arrangements. Examples include contracts with customers, compensation arrangements with employees, leases and the terms of many financial assets and liabilities. o Management may need to use different data sources because of the environment. In such circumstances, the auditor may consider the relevance and reliability of such data sources. o The accounting estimate may be dependent on data that is not readily observable or available given the effects of the pandemic. • Whether the data has been appropriately understood or interpreted by management. With respect to complex legal or contractual terms, the auditor may consider whether specialized skills or knowledge are needed to understand and interpret the contract. The auditor may also inspect the underlying contract to consider whether the terms of the contracts are consistent with management's explanations.

As a result of the COVID-19 pandemic:

- It may be more challenging for management to understand and address estimation uncertainty by selecting an appropriate point estimate, and by developing related disclosures. This may also result in challenges for auditors as ISA 540 (Revised) requires the auditor's further audit procedures to address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to understand and address estimation uncertainty.[14] When, in the auditor's judgement, management has not taken appropriate steps to address estimation uncertainty, ISA 540 (Revised) describes the auditor's responsibilities.[15]
- There may be more instances where the size of the auditor's range is multiples of materiality for the financial statements as a whole as the estimation uncertainty is higher. Although a wide range may be appropriate in the circumstances, it may indicate that it is important for the auditor to reconsider whether sufficient appropriate audit evidence has been obtained regarding the reasonableness of the amounts within the range. In such circumstances, disclosures about estimation uncertainty also becomes more important (also see section below on the auditor's considerations in regard to disclosures).[16]

Management should assess (and auditors should evaluate) what information was known at the financial statement date to determine if adjustments to accounting estimates are necessary or whether disclosures are required. For further details on subsequent events, refer to IAASB Staff Audit Practice Alert "*Subsequent Events in the Current Evolving Environment–Audit Considerations for the Impact of COVID-19.*"

Disclosures

ISA 540 (Revised) includes requirements on disclosures in three places. Paragraph 31 addresses all disclosures related to accounting estimates, other than those related to estimation uncertainty. Paragraphs 26(b) and 29(b) address the disclosures related to estimation uncertainty.

The importance of robust disclosures about accounting estimates in the current environment cannot be emphasized enough. The disclosures will help users of the financial statements understand the nature and extent of volatility and estimation uncertainty in the relevant amounts where the variables are difficult to predict.

When the size of the auditor's range is multiples of materiality, the auditor's evaluation of the reasonableness of the disclosures about estimation uncertainty becomes increasingly important, particularly whether such disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.[17]

[14] ISA 540 (Revised) paragraphs 26, A109–A114

[15] ISA 540 (Revised) paragraph 27

[16] ISA 540 (Revised) paragraph A125

[17] ISA 540 (Revised) paragraph A125

IFRS 7[18] also requires qualitative and quantitative disclosures related to credit risk, liquidity risk and market risk. As part of the auditor's considerations when obtaining audit evidence about disclosures, these disclosures are largely related to the work on accounting estimates and may also need to be considered in light of the enhanced requirements of ISA 540 (Revised). For example, an entity's credit risk may have changed significantly because counterparties have failed to meet their obligations because, for example, they have been affected by government-imposed restrictions or other adverse trading conditions. Liquidity risk may change as banks may be more prudent in lending money and market risk may have changed because of fluctuations in interest rates.

ISA 540 (Revised)[19] also highlights that, in certain circumstances, additional disclosures beyond those explicitly required by the financial reporting framework may be needed in order to achieve fair presentation. In the current environment there may be additional disclosures necessary that may not have been needed before the pandemic.

Implications for the Auditor's Report

The IAASB Staff Audit Practice Alert "*Auditor Reporting in the Current Evolving Environment Due to COVID-19*" includes guidance for auditors in considering the implications of COVID-19 on the auditor's report. Among other matters, that Staff Audit Practice Alert highlights that if the auditor's consideration of estimation uncertainty associated with an accounting estimate and its related disclosure is a matter that required significant auditor attention, this may constitute a key audit matter in accordance with ISA 701.[20] Given that the degree of estimation uncertainty, complexity and subjectivity may be higher because of the effects of the COVID-19 pandemic, the number of areas in the financial statements that involved significant auditor judgments may likely have increased.

The IAASB's Staff Audit Practice Alert on Auditor Reporting also highlights that, in accordance with ISA 706 (Revised),[21] the auditor may consider it necessary to include an emphasis of matter paragraph in the auditor's report to draw users' attention to a matter that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. For example, when ISA 701 does not apply, the auditor may include an emphasis of matter paragraph to draw attention to a matter relevant to an accounting estimate (or its related disclosures) that is fundamental to the users understanding of the volatility and uncertainty within the accounting estimate.

The COVID-19 pandemic has tested the way auditors obtain audit evidence. In relation to accounting estimates, it may be more difficult to obtain sufficient appropriate audit evidence related to the data, assumptions and methods used to make the accounting estimate. If the auditor is unable to obtain sufficient appropriate audit evidence, for example because management may have used data that is not reliable and there is no other appropriate way to obtain the necessary audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).[22]

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[18] International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures*

[19] ISA 540 (Revised), paragraph A112

[20] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[21] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

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

Management Bias and Fraud

All accounting estimates have some degree of estimation uncertainty, which gives rise to subjectivity. The presence of subjectivity gives rise to the need for judgment by management, and therefore the susceptibility to unintentional or intentional management bias.[23] Where there is intention to mislead, management bias is fraudulent in nature.

Indicators of Management Bias

Because of the COVID-19 pandemic, the degree to which accounting estimates are affected by subjectivity may be higher as there is, for example, uncertainty about the period of the pandemic, and the nature and extent of the pandemic's impact. Therefore, the auditor's evaluation of potential indicators of management bias may be more critical than before the pandemic. When evaluating potential indicators of management bias,[24] the auditor may consider that management bias may be different than before the pandemic. For example, before the pandemic management may have been unintentionally biased to achieve a desired profit target. This may have changed in the current environment as, for example, management may be biased (unintentionally or intentionally) by the need to qualify for government support packages.

Indicators of possible management bias may also be a fraud risk factor (i.e., in the case of intentional bias), and may cause the auditor to perform different and more robust audit procedures.

Fraud

Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates, which may include intentionally understating or overstating such estimates, or related assumptions. For example, management may overstate future cash flows to avoid an impairment of the entity's assets. In the current environment, it is likely that auditors will need to focus on the entity's impairment calculations, in particular the inputs into those calculations, because of the increased subjectivity associated with those inputs.

Management may also be incentivized to meet certain financial or operating targets. In the current environment there is an increased possibility that some entities may breach loan covenants due to changed ratios or targets, for example, because the value of current assets relative to current liabilities has changed. Management may intentionally misrepresent the financial position so as not to breach the covenants given the impact that this may have on the entity.

The risk of a material misstatement due to fraud may also be higher because the entity's controls are not operating effectively, for example, because employees may be working remotely and the system of internal control has not been adequately adjusted for the changed working environment. If there is an increased risk of material misstatement due to fraud, the auditor will need to consider whether changes are needed and may need to perform different and more robust audit procedures.

[23] Management bias is defined in the ISAs as: 'A lack of neutrality by management in the preparation of information.'

[24] ISA 540 (Revised), paragraph A134, includes several examples of indicators of possible management bias.

Other Resources

For further resources assembled by the IAASB's staff, including other COVID-19 Staff Audit Practice Alerts refer to the [IAASB's website](#).

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Webinar Series – Practical Audit Quality Considerations for Auditing in the Pandemic Environment
July 2020

International Federation of Accountants®

Webinar 3: Auditor Reporting in the Pandemic Environment & Looking Ahead

Summary of Key Takeaways

Panelists

- **Webinar Chair:** David Isherwood
  Chair, Forum of Firms &
  Partner, Audit Advisory, BDO UK
- Josephine Jackson
  Member, IAASB &
  Director, International Auditing and Assurance Standards, UK Financial Reporting Council
- Caroline Monk
  HLB International [Member, Forum of Firms] &
  Executive Partner, Beever and Struthers, UK
- Andrew Brathwaite
  Member, IFAC Small and Medium Practices Advisory Group &
  Audit Partner, KPMG Barbados
- Richard Lawrence
  Head of Accounting & Valuation Policy
  Nat West Group plc
- Lisa Smith
  Deloitte Touche Tohmatsu Limited [Member, Forum of Firms]
  Managing Director, Deloitte & Touche LLP

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Introduction

The focus on auditor's reports has increased in the current environment as investors and other users of financial statements seek greater transparency from entities around the impacts of Covid-19 in the financial statements, as well as greater transparency into the audit. Covid-19 may result in a rise in modifications to the auditor's opinion, or have other implications on the auditor's report, such as inclusion of material uncertainties relating to going concern, use of emphasis of matter paragraphs, and for listed entities, implications for key audit matters (KAMs)/critical audit matters (CAMs).

In the final of a three-part webinar series, IFAC convened a panel of audit experts to share their perspectives and practical insights on auditor reporting in the pandemic environment. The panel also reflected more generally on lessons learned over the last few months.

This document provides a summary of key takeaways from the discussion. The full recording of the session can be accessed here.

Going Concern

The global economic implications of the COVID-19 pandemic have increased the likelihood that events or conditions exist that may cast significant doubt on an entity's ability to continue as a going concern. Depending on the specific facts and circumstances of each entity, management's assessment of going concern could be more complex and increased disclosures around going concern may be needed in the financial statements. As a result, the auditor may need to perform additional audit procedures to conclude whether management's assessment and related disclosures are reasonable.

Challenges		Practical considerations
It may be more challenging for management to assess the entity's ability to continue as a going concern. Forward looking assumptions such as revenue projections or future cash flow may be difficult to make, and models and forecasts may be subject to drastic (yet plausible) assumptions and significant uncertainties. All these factors may make it more difficult for the auditor to audit management's going concern assessment.	⇨	Effective two-way communication between the auditor and audit entity is crucial, particularly as facts and circumstances can quickly change. Management needs to prepare a robust going concern assessment. Whether an entity uses highly complex models or less complex spreadsheets, it is likely that existing models or approaches will need updating to factor in significant uncertainties and multiple scenarios. Auditing management's going concern assessment will require the auditor to apply their professional skepticism to management's judgments and assumptions. Considerations for the auditor may include whether: • Additional audit procedures may be required, such as increased sensitivity analysis, robust stress testing of scenarios (including reverse stress testing - considering what it would take for the entity to fail), recalculation of future cash flows and other forecasts, and inspection of key contracts. • There is a higher risk of computational error. More work may be needed around reviewing changes to models and formulas, and testing whether changing inputs result in expected outputs being calculated. • Management's assessment covers an appropriate period (typically at least the first twelve months after the balance sheet date, or after the date the financial statements will be signed, but

Challenges	Practical considerations
	the timeframe might need to be extended depending on the circumstances). • Management has included adequate, transparent, and entity-specific disclosures in the financial statements on the level of uncertainties and events or conditions that affect going concern. • A consistent approach has been applied across all companies in a group, and wherever possible, going concern assessments have been completed at the same time. • There are any implications for the auditor's report. (Potential implications for the auditor's report relating to going concern are summarized in the IAASB Staff Audit Practice Alert: Auditor Reporting in the Current Evolving Environment Due to Covid-19) Timely documentation of the auditor's thought processes and rationale for their judgments and conclusions on the reasonableness of management's assessment is important. This will help the auditor to stand back and consider – Does is make sense? Is there enough evidence to support the conclusion? It may also help with any internal firm processes or consultations for reviewing and benchmarking auditors' going concern assessments.
For further guidance on going concern, see the IAASB Staff Audit Practice Alert: Going Concern. This includes examples of events or conditions that may exist as a result of the COVID-19 pandemic, sets out further example audit procedures, and outlines potential implications for the auditor's report.	

Auditor Reports

Challenges	Practical considerations
Covid-19 may amplify conditions that give rise to a modification to the auditor's opinion.	Where modifications may be necessary, it is very important for the auditor to engage with management and those charged with governance as early as possible. Modifications to the auditor's opinion are required where the auditor concludes that: • There is a material misstatement of the financial statements, for example inadequate or inappropriate disclosure of the effects of the current circumstances, including insufficient description of relevant risks, estimates and judgments applied by the entity. • They are not able to obtain sufficient appropriate audit evidence, for example because of severe restrictions to accounting records that cannot be overcome by alternative remote procedures. Types of modifications to the auditor's opinion are set out in *ISA 705 (Revised).*

Challenges		Practical considerations
Covid-19 may impact the identification of key audit matters (KAMs) for listed entities. *[Or for entities listed on the US SEC, critical audit matters (CAMs)]*	⇨	Both KAMs and CAMs are selected from matters communicated to those charged with governance (TCWG), or the audit committee, but: • KAMs are those matters that, in the auditor's professional judgment, were of the most significance in the audit of the financial statements. A matter giving rise to a material uncertainty related to going concern is by its nature a KAM. However, in such circumstances these matters are not described in the KAM section of the auditor's report, but instead, the auditor reports in accordance with ISA 570 (Revised) on going concern. See IAASB Staff Alert on auditor reporting for further guidance. • CAMs are any matter arising from the audit of the financial statements that relates to accounts or disclosures that are material to the financial statements and involved especially challenging, subjective, or complex auditor judgment. Whilst the Covid-19 crisis may not itself be a CAM, it may be a principal consideration in the auditor's determination as to whether one or more CAMs exist. The PCAOB standards do not prescribe that substantial doubt about going concern is always a CAM, and auditors will need to apply their judgment to the specific circumstances. See PCAOB staff guidance on CAMs for further considerations. For both KAMs and CAMs, the auditor should evaluate whether matters reported to TCWG are a KAM or CAM, and clearly document judgments made. KAMs are a requirement for audits of listed entities but can be used voluntarily in other audits.
Auditor judgment is needed in deciding when it is appropriate to use an emphasis of matter (EOM) paragraph. It is important that they are not overused.	⇨	Emphasis of matter paragraphs should only be included where the auditor wants to draw users' attention to a matter, they believe is of fundamental importance to the users' understanding of the financial statements. An example could be where there is not a material uncertainty related to going concern and management has disclosed useful information about how they came to that conclusion, the judgments made, mitigating factors etc, but in various places throughout the financial statements. In the same situation where disclosures are all in one place, the auditor may decide that an emphasis of matter paragraph is not necessary.
For further guidance on auditor reporting, see the IAASB Staff Audit Practice Alert: Auditor Reporting in the Current Evolving Environment Due to Covid-19.		

Looking Ahead

Reflecting on changes experienced over the last 6 months, considerations going forward include:

- How to maintain people wellness through prolonged periods of remote working.

- How to ensure effective training of more junior staff, which can be particularly difficult for areas such as professional skepticism, which is usually learnt through practical experience and face to face interactions with clients.
- The logistics of delivering an audit with greater reliance on technology and remote access to client documentation.
- Whether changes to an entity's control environment that enabled a shift to remote operations were temporary with the view that processes and controls would revert back once staff return to the office, or whether changes will become more permanent and if so, whether more robust review processes need to be established and documented.

For further guidance on Audit and Financial Reporting considerations due to COVID-19, please refer to IFAC's dedicated webpages on both topics:

For further COVID-19 related guidance on audit and ethics from the standard-setting boards, please refer to their webpages:

IAASB: Guidance for Auditors During the Coronavirus Pandemic

IESBA: COVID-19: Ethics & Independence Considerations

Published by: International Federation of Accountants®

IAASB®

Staff Audit Practice Alert
May 2020

COVID-19

Auditor Reporting in the Current Evolving Environment Due to COVID-19

This publication has been prepared to highlight key areas of focus in the current environment relevant to auditor reporting in accordance with the International Standards on Auditing™ (ISA™) and International Standards on Review Engagements™ (ISRE™). This publication does not amend or override the ISAs and ISREs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs and ISREs.

This Audit Staff Practice Alert is intended only to address auditor reporting in relation to the auditor conducting an audit of financial statements of an entity in accordance with ISAs, or when the auditor undertakes an engagement to review interim financial information of that same entity in accordance with ISRE 2410.[1]

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the potential impacts to the audit and interim review reports arising from matters that have become more pertinent in the current circumstances.

The effects of the COVID-19 pandemic have significant global implications for economies, markets and businesses, including volatility and possible material uncertainties. In such unpredictable circumstances, auditors of entities affected by these conditions will need to focus on the potential impacts for auditor and interim review reports, which are used to communicate audit opinions or review conclusions, respectively, to intended users. Appropriate actions will depend on the specific engagement circumstances.

This Staff Audit Practice Alert highlights potential implications for auditor and interim review reports arising from the current environment, including:

- Modifications to the auditor's opinion due to material misstatement of the financial statements or an inability to obtain sufficient appropriate audit evidence;
- Material uncertainty relating to going concern;
- Inclusion of key audit matters (KAMs) and/or emphasis of matter (EOM) paragraphs; and
- Reporting implications for interim review engagements, when the auditor of the financial statements is also performing the interim review.

Preparation of the Financial Statements and the Auditor's Report Thereon

Management's Responsibilities for the Preparation of the Financial Statements

Management is responsible for preparing the financial statements in accordance with the applicable financial reporting framework. Management must make judgments and develop estimates regarding amounts and disclosures within the

[1] ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

financial statements. This includes whether the going concern basis of accounting remains appropriate in preparing the financial statements.

In the current circumstances, disclosures take on ever increasing importance. Users expect increased transparency through disclosures relating to the material effects of the COVID-19 pandemic. These disclosures could address the impact of financial market volatility, deteriorating credit or liquidity concerns, government interventions (such as government grants), and changes arising from reductions in production and restructuring, among other matters.

Obtaining Sufficient Appropriate Audit Evidence to Support the Auditor's Opinion

The COVID-19 pandemic has tested the way auditors obtain sufficient and appropriate audit evidence. Access issues (e.g., caused by travel restrictions and remote working arrangements), and the availability of client staff are common challenges. For example, auditors may no longer be able to attend physical inventory counts; group auditors may have challenges accessing workpapers of component auditors; or auditors may not be able to understand and test internal controls due to changes in how entities are operating. In some cases, auditors may be able to undertake alternative procedures to be able to obtain sufficient appropriate audit evidence, but in other cases this may not be possible.

When the auditor is unable to obtain sufficient appropriate audit evidence necessary to provide a basis for forming an opinion on the financial statements, the auditor will need to consider the impact on the auditor's report, including whether a modification to the opinion is needed.

Under the ISAs, obtaining sufficient appropriate audit evidence applies equally to disclosures. Further, for financial statements prepared in accordance with a fair presentation framework, auditors are required to consider the overall presentation of the financial statements and whether the financial statements, including disclosures, represent the underlying transactions and events in a manner that achieves fair presentation. If the disclosures do not adequately describe the material effects of the COVID-19 pandemic (e.g., relating to significant assumptions for accounting estimates, financial risk management or significant judgements about going concern), consideration of the possible effect on the auditor's report is required. This may include whether a modification to the opinion is needed.

The Auditor's Report

The auditor plans and performs the audit to obtain reasonable assurance that the financial statements as a whole, including disclosures, are free from material misstatement. The auditor expresses an opinion on the financial statements in the auditor's report, based on the audit evidence obtained.

The following ISAs are relevant to auditor reporting:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, sets out the requirements relating to the auditor forming an opinion and the content of the auditor's report. ISA 700 (Revised) also provides illustrative example reports for situations when no modifications are needed to the opinion or the auditor's report.
- ISA 701, *Communicating Key Audit Matters In The Independent Auditor's Report*, deals with the auditor's responsibility to communicate those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of listed entities or other entities for which law or regulation requires communication of key audit matters. In other circumstances, auditors may also decide to communicate key audit matters.

- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, sets out the requirements for modifying the auditor's opinion when the financial statements are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence. ISA 705 (Revised) also provides illustrative example reports with modifications to the audit opinion.
- ISA 706 (Revised), *Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report*, explains the circumstances when such paragraphs may be necessary and provides illustrative examples of such paragraphs.

The remainder of this Staff Alert explains the various possible ways in which the auditor's report may be modified when issues related to the COVID-19 pandemic's impact are relevant to the preparation of the entity's financial statements.

Modifications to the Auditor's Opinion

Impacts of the COVID-19 pandemic may amplify conditions that give rise to modifications, which arise from circumstances where the auditor has:

- Determined that there are, in accordance with ISA 450, uncorrected misstatements that are material, individually or in aggregate, to the financial statements as a whole;[2] or
- Concluded, in accordance with ISA 330, that they are unable to obtain sufficient appropriate audit evidence.[3]

In the current circumstances, examples of when modifications to the auditor's opinion may arise because of *material misstatement of the financial statements* include:

- The **appropriateness or adequacy of disclosures** in the financial statements. For example, when the financial statements do not include all of the disclosures required to appropriately describe the effects of current circumstances on the entity resulting from the COVID-19 pandemic, including sufficient description of relevant risks, estimates and judgments applied for that entity.
- The proper **application of the entity's accounting policies**. For example, inappropriate recognition and measurement, in accordance with an entity's accounting policies, of assets and liabilities.

Modifications to the auditor's opinion also may arise as a result of the *inability to obtain sufficient appropriate audit evidence*, including circumstances beyond the control of the entity or circumstances relating to the nature or timing of the auditor's work. For example, access to the entity's accounting records or the ability to obtain audit evidence may be restricted due to government imposed lockdowns and travel bans during the COVID-19 pandemic (e.g., access to information or people, which may relate to the entity or its components, including associates and joint ventures, etc.).

The types of modifications to the auditor's opinion are set out in ISA 705 (Revised),[4] and explain the circumstances for each (i.e. a qualified opinion, adverse opinion and a disclaimer of opinion) based on the auditor's judgment in the particular situation.

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[2] ISA 450, *Evaluation of Misstatements Identified During the Audit,* paragraph 11 and ISA 705 (Revised), paragraph 6(a)

[3] ISA 330, *The Auditor's Responses to Assessed Risks,* paragraphs 26-27 and ISA 705 (Revised), paragraph 6(b)

[4] ISA 705 (Revised), paragraphs 7–10

The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

Nature of Matter Giving Rise to the Modification	***Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements***	
	Material but Not Pervasive	**Material and Pervasive**
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

ISA 705 (Revised)[5], set out specific elements required in the auditor's report when the auditor modifies the opinion on the financial statements.

Communication with Those Charged with Governance

Broadly, when the auditor expects to modify the opinion in the auditor's report, the circumstances that led to the expected modification and the wording of the modification are required to be communicated with those charged with governance.[6] Additional communication may also be required with those charged with governance in certain circumstances where there is a modification of the auditor's opinion (e.g., there is a material misstatement due to non-disclosure).[7]

Material Uncertainty Relating to Going Concern

The current uncertain financial, operating and other conditions that are arising as a result of the COVID-19 pandemic will likely result in heightened risk. Consequently, there may be a need for more persuasive audit evidence in relation to management's assessment of the entity's ability to continue as a going concern and related disclosures, as applicable, in the financial statements. The auditor's conclusions relating to going concern, in light of the facts and circumstances of the entity, determine the possible impact (if any) on the auditor's report.

ISA 570 (Revised), *Going Concern* sets out the auditor's responsibilities in relation to going concern and the implications for the auditor's report. The Appendix to ISA 570 (Revised) provides illustrative examples of auditor's reports relating to going concern.

ISA 570 (Revised) requires the auditor to evaluate whether sufficient appropriate audit evidence has been obtained with regard to the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.[8] The work effort for obtaining sufficient appropriate audit evidence to support the auditor's conclusion, and concluding on the appropriateness of management's use

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5 ISA 705 (Revised), paragraphs 20–29

6 ISA 705 (Revised), paragraph 30

7 ISA 705 (Revised), paragraph 23(a)

8 ISA 570 (Revised), paragraphs 17–20

of the going concern basis of accounting in accordance with ISA 570 (Revised), are further explained in the IAASB Staff Audit Practice Alert, *Going Concern in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19*. Although that Staff Alert includes a section that addresses potential implications for the auditor's report, this Staff Alert provides additional detail and expands more on situations where the audit opinion is modified (i.e., qualified or adverse opinions, or disclaimer of opinions).

When Changes are Needed to the Auditor's Report Relating to Going Concern

When the auditor concludes that management's use of the going concern basis of accounting is appropriate, but a material uncertainty exists, the auditor determines whether the financial statements adequately disclose the principal events and conditions, management's plans to deal with those events or conditions and whether, under these conditions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business.

The implications for the auditor's report are summarized in the table below:

Implications for the Auditor's Report[9]		
Auditor's Conclusion	**Reporting Implication**	**Circumstance that Results in Modification**
Use of going concern basis of accounting is inappropriate	**Adverse opinion**	When the financial statements have been prepared by management using the going concern basis of accounting but, in the auditor's judgment, that basis is no longer appropriate.
Use of going concern basis of accounting is appropriate BUT a material uncertainty exists	**Unmodified opinion** **+** **Separate Material Uncertainty Paragraph**[10]	When adequate disclosure about the material uncertainty is made in the financial statements, the auditor's report includes a separate section under the heading "Material Uncertainty Related to Going Concern" to: • Draw attention to the relevant disclosure in the financial statements. • State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

[9] ISA 570 (Revised), paragraphs 21–24

[10] ISA 570 (Revised), paragraph 22

Implications for the Auditor's Report[9]		
Auditor's Conclusion	**Reporting Implication**	**Circumstance that Results in Modification**
	Qualified or adverse opinion	When adequate disclosure about the material uncertainty is not made in the financial statements, the auditor: • Expresses a qualified or adverse opinion, as appropriate, in accordance with ISA 705 (Revised); and • In the "Basis for Qualified (Adverse) Opinion" section of the auditor's report, states that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
	Disclaimer of opinion	May be used when there are situations (in extremely rare cases) involving multiple uncertainties that are significant to the financial statements as a whole.[11]
Unable to conclude because management is unwilling to make or extend its assessment	**Qualified or disclaimer of opinion**	When management is unwilling to make, or extend, its assessment of the entity's ability to continue as a going concern, when requested to do so by the auditor, the auditor considers the implications for the auditor's report,[12] since the auditor may not be able to conclude regarding management's use of the going concern basis of accounting. In accordance with ISA 705 (Revised), if the possible effects on the financial statements of such limitation on the scope of the audit is material, a qualified or disclaimer of opinion may be appropriate.
Going concern basis is inappropriate AND financial statements are prepared on another acceptable basis of accounting	**Unmodified opinion**	When the going concern basis of accounting is not appropriate and management prepares the financial statements on another basis (e.g., a liquidation basis), and: • The auditor determines that the other basis of accounting is acceptable in the circumstances; and

[11] ISA 570 (Revised), paragraph A33

[12] ISA 570 (Revised), paragraph 24

Implications for the Auditor's Report[9]		
Auditor's Conclusion	**Reporting Implication**	**Circumstance that Results in Modification**
		• There is adequate disclosure about the basis of accounting on which the financial statements are prepared. In these circumstances, the auditor issues an unmodified opinion but may consider it appropriate or necessary to include an EOM paragraph in the auditor's report, in accordance with ISA 706 (Revised), to draw the user's attention to the alternative basis of accounting and the reasons for its use.[13]

Even when no material uncertainty exists, ISA 570 (Revised)[14] requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In addition, when the financial statements are prepared in accordance with a fair presentation framework, additional disclosures beyond those required by the applicable financial reporting framework may be provided by management (or the auditor may determine that such additional disclosures are necessary) to achieve fair presentation.

In these circumstances, and where the auditor does not communicate such matter(s) as a key audit matter in the auditor's report in accordance with ISA 701, the auditor may wish to include an emphasis of matter paragraph in the auditor's report in accordance with ISA 706 (Revised) to draw the users' attention to such disclosure(s).

Communication with Those Charged with Governance

ISA 570 (Revised),[15] sets out the requirements for communication with those charged with governance when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern.

Key Audit Matters (KAMs)

When [*ISA 701, Communicating Key Audit Matters In The Independent Auditor's Report*] applies, additional focus may be needed in determining the key audit matters reported in the auditor's report because of the changing circumstances and difficulties arising due to the COVID-19 pandemic. For example, the effect on the entity's financial position and performance arising from the impact of COVID-19 could significantly affect the audit procedures undertaken, particularly when there were significant management judgments.

13 ISA 570 (Revised), paragraph A27

14 ISA 570 (Revised), paragraph 20

15 ISA 570 (Revised), paragraph 25

In the current environment, the auditor's determination of the matters that require significant auditor attention may, for example, be affected by the following:

- **Difficulty obtaining sufficient appropriate audit evidence—**COVID-19 related conditions may cause difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, such as valuing financial instruments or calculating other fair values.
- **Specific events or transactions**—that have a significant effect on the financial statements (i.e., developments affecting financial statement items in a different way, or new items or transactions, or unusual or once-off transactions (e.g., new impairments of non-financial or financial assets or recoverability of deferred tax assets)).

The auditor considers such matters in accordance with ISA 701[16] in determining key audit matters.

When it has been determined that there is a key audit matter(s) that needs to be communicated in the auditor's report, the auditor does so in a separate section of the auditor's report under the heading "Key Audit Matters."[17] The description of each key audit matter:

- Includes a reference to the related disclosure(s), if any, in the financial statements; and
- Addresses the following aspects related to the auditor's professional judgment about the matter:
  - Why the matter was considered to be one of most significance in the audit of the current period and therefore determined to be a key audit matter; and
  - How the matter was addressed in the audit.

Referring to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements. In addition, the auditor may draw attention to key aspects of such disclosure(s), which may assist intended users' understanding of why the matter is a key audit matter.

Matters that Are Not Presented as Key Audit Matters

ISA 701[18] sets out that a matter giving rise to a modified opinion in accordance with ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised), are by their nature, key audit matters. However, in such circumstances, these matters are not described in the Key Audit Matters section of the auditor's report; rather, the auditor includes a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section.

The application material to ISA 701,[19] sets out an illustration where the auditor has no other key audit matters to communicate in such situations.

Key Audit Matters

[*Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section*,] We have determined that there are no [other] key audit matters to communicate in our report.

16 ISA 701, paragraphs 9–10

17 ISA 701, paragraph 13

18 ISA 701, paragraph 15

19 ISA 701, paragraph A58

Communication with Those Charged with Governance

ISA 701[20] requires the auditor to communicate with those charged with governance the matters the auditor has determined to be key audit matters or, if applicable, the auditor's determination that there are no key audit matters to communicate in the auditor's report.

Emphasis of Matter Paragraphs

The auditor may consider it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In these circumstances, ISA 706 (Revised) requires that the auditor include an EOM paragraph within a separate section of the auditor's report with an appropriate heading.

To draw attention to a matter presented or disclosed

The EOM paragraph includes a clear reference to the matter being emphasized, where the relevant disclosures that fully describe the matter can be found in the financial statements, and indicates that the auditor's opinion is not modified in respect of the matter emphasized.

As has been referred to earlier, adequate and robust disclosures in the financial statements take on ever increasing importance due to the effects of the COVID-19 pandemic. Notwithstanding that auditors may look to EOM paragraphs to draw attention to certain disclosures, auditors should remain mindful that widespread use of EOM paragraphs may diminish the effectiveness of the auditor's communication about such matters.[21]

When ISA 706 (Revised) Should Not Be Used

In accordance with ISA 706 (Revised),[22] the inclusion of an EOM paragraph in the auditor's report would not be appropriate when:

- ISA 701 applies, and the matter has been determined to be a key audit matter to be communicated in the auditor's report (i.e., such matter is included in the separate "Key Audit Matters" section of the auditor's report).
- The matter results in the auditor modifying the opinion in accordance with ISA 705 (Revised) (i.e., if the auditor determines that a qualified or adverse opinion or a disclaimer of opinion is appropriate in the circumstances of a specific audit engagement).

Not used when:

-Already communicated as a KAM

-Opinion has been modified

In addition, an EOM paragraph is not a substitute for appropriate disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise

[20] ISA 701, paragraph 17

[21] ISA 706 (Revised), paragraph A6. In addition, paragraphs A1 to A5 provide application material that addresses the relationship between EOM paragraphs and Key Audit Matters, and that describes circumstances in which an EOM paragraph may be necessary.

[22] ISA 706 (Revised), paragraph 8

necessary, to achieve fair presentation. It also is not an alternative to reporting in accordance with ISA 570 (Revised) when the auditor has concluded that a material uncertainty related to going concern exists.

Interim Review Reports

The effects of the COVID-19 pandemic also will need to be considered by management when preparing and issuing interim financial information. The entity's external auditor would also consider the impact of such effects when reviewing the entity's interim financial information in accordance with ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

For the auditor, the reporting implications are different because, for interim review engagements, the auditor expresses a review conclusion in accordance with ISRE 2410. Unlike an audit, a review is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement (i.e., the auditor obtains only limited assurance from the procedures performed).

The IAASB Staff Audit Practice Alert, *Review Engagements on Interim Financial Reporting in the Current Evolving Environment Due to COVID-19*,[23] addresses the auditor's procedures for a review of interim financial information in accordance with ISRE 2410, including concluding based on the evidence obtained. The following highlights reporting considerations relating to reporting on going concern and other modifications to the auditor's review report.

Going Concern

ISRE 2410[24] sets out requirements and explanatory material when a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern comes to the auditor's attention. Under these conditions, ISRE 2410 requires the auditor to:

- Include an EOM paragraph in the review report when adequate disclosure is made in the interim financial information; or
- Express a qualified or adverse conclusion, as appropriate, when the material uncertainty is not adequately disclosed in the interim financial information, (depending on the materiality and pervasiveness of the impact on the interim financial information).

Other Modifications to the Review Report

ISRE 2410 also addresses situations where a modification to the review report may be appropriate based on the evidence obtained or considering a limitation on the scope of the review – such modifications are ordinarily presented by adding an explanatory paragraph to the review report and appropriately modifying the conclusion:

- *Departure from the applicable financial reporting framework*—If a matter comes to the auditor's attention that causes the auditor to believe that the interim financial information is, or may be, materially affected by a departure from the applicable financial reporting framework (i.e., either incorrect interim financial information or inadequate disclosures), and management does not correct

[23] The Staff Alert is expected to be published early June 2020

[24] ISRE 2410, paragraphs 56–59

the interim financial information or add the necessary disclosures, the auditor modifies the review report:

- A qualified conclusion is expressed, and an explanatory paragraph is added to the review report (i.e., explaining the basis for the qualified review report). Illustrative review reports with a qualified conclusion are set out in Appendix 5 of ISRE 2410.
- An adverse conclusion is expressed when the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information.[25] Illustrative review reports with a qualified conclusion are set out in Appendix 7 of ISRE 2410.

- *Limitation on scope*—If there is a limitation on the scope of the review (i.e., the limitation on scope ordinarily prevents the auditor from completing the review), the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. The auditor also considers whether it is appropriate to issue a report, and if a report is to be issued, what the impact on the auditor's conclusion is. Depending on the facts and circumstances of each entity, a limitation on scope may be more readily expected in the current COVID-19 environment, and may arise from:
  - A limitation on scope imposed by management.
  - Other circumstances.

  ISRE 2410[26] provides further detail regarding the auditor disclaiming a conclusion or expressing a qualified conclusion owing to a limitation on scope.
- *Other modifications*—the auditor is required to consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than related to going concern) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.[27]

[25] ISRE 2410, paragraphs 45–47

[26] ISRE 2410, paragraphs 48–54

[27] ISRE 2410, paragraph 60

IAASB

Staff Audit Practice Alert
June 2020

Review Engagements on Interim Financial Information in the Current Evolving Environment Due to COVID-19

This publication has been prepared to highlight key areas of focus in the current environment when undertaking a review of interim financial information in accordance with International Standard on Review Engagements™ (ISRE™) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

This publication does not amend or override ISRE 2410, the text of which alone is authoritative. Reading this publication is not a substitute for reading ISRE 2410.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to the review of interim financial information.

For many entities, the financial effects of the COVID-19 pandemic may first be reflected in the 2020 interim financial information of the entity. Consequently, the extent and complexity of updates in the interim financial information prepared by the entity from the latest complete set of annual financial statements may be greater than usual for interim periods in 2020.

Jurisdictional law or regulation, securities regulation, stock exchange rules, or national standards may affect which financial reporting framework is used to prepare the interim financial information, the period for which it is prepared (e.g. quarterly or half-yearly) and whether the interim financial information is required to be reviewed, or possibly audited, by the independent auditor of the entity. In some instances, the entity may have the choice of which financial reporting framework to use, and whether the interim financial information is reviewed or audited.

This Staff Audit Practice Alert highlights key considerations for auditors performing *reviews* of interim financial information in accordance with ISRE 2410,[1] given the unique challenges that may arise in the current environment.

A *review* of interim financial information in accordance with ISRE 2410 is a **limited assurance engagement**, in which the independent auditor of the entity expresses a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects in accordance with the applicable financial reporting framework ("interim review conclusion"). This review is undertaken by the auditor of the entity.

[1] Paragraph 3 of ISRE 2410 requires that a practitioner who is engaged to perform a review of interim financial information and who is not the auditor of an entity performs the review in accordance with ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. This Staff Audit Practice Alert focuses on the performance of a review of interim financial information performed in accordance with ISRE 2410. The term "auditor" is used throughout this publication, not because the auditor is performing an audit function but because the scope of this publication is limited to interim review engagements performed by the independent auditor of the financial statements of the entity.

Early planning (or reconsideration if already planned) of the possible effects of the COVID-19 pandemic on the engagement will be essential, as auditors may need additional resources and time to plan and perform the engagement. In the case of group engagements, there may be a need for more engagement with, and involvement of, component auditors. In addition, auditors may determine it necessary to communicate more extensively (and more often) with those charged with governance in the current environment, for example, regarding the application of the financial reporting framework or changes in controls in the evolving circumstances.

Management's Responsibility for the Interim Financial Information

Management is responsible for preparing interim financial information, and for establishing and maintaining effective internal control relevant to the preparation of the interim financial information. Management prepares the interim financial information in accordance with an applicable financial reporting framework. For example, International Accounting Standard (IAS) 34, *Interim Financial Reporting*, sets out the requirements for an interim financial report prepared under International Financial Reporting Standards ("IFRS").

Interim financial information typically focuses on updates from the latest complete set of annual financial statements. The COVID-19 pandemic may give rise to events and transactions that significantly change the financial position and performance of the entity since the end of the last annual reporting period. As a result of the pandemic, significantly more effort may be required of management to appropriately apply the recognition, measurement and disclosure requirements of the applicable financial reporting framework, including adequate disclosures in the interim financial information about the COVID-19 pandemic.

> ***"While requirements for interim reports may contain fewer required disclosures than is the case for annual reports, where an interim report is the first report to be published since the COVID-19 pandemic, it will be relevant to include more detailed disclosure on these matters and their material effect on the issuer"***
>
> *IOSCO Statement on Importance of Disclosure about COVID-19, May 2020*

As a result of the pandemic events, there may be an increase in management judgments needed in making, presenting, and disclosing accounting estimates. Furthermore, management may need to implement new controls, or modify existing controls, to prepare the interim financial information on a timely basis (e.g., due to changes in personnel and a lack of physical access), and to address increased risks of error or fraud. They may also face logistical challenges, for example, there may be difficulties in obtaining valuations from experts or obtaining information from subsidiaries, joint ventures or associates located in other jurisdictions, particularly in circumstances when those jurisdictions have provided extensions on financial reporting deadlines.

The Applicable Financial Reporting Framework

There may be multiple options for management in selecting and applying the applicable financial reporting framework, including deciding whether to provide a comprehensive set of interim financial statements or condensed set of interim financial statements.

The applicable financial reporting framework for the preparation of interim financial information in a jurisdiction may, for example, encompass recognized financial reporting standards (e.g., IAS 34[2] or other

[2] IAS 34, *Interim Financial Reporting*

recognized financial reporting standards) and may be supplemented by other requirements in law or regulation relating to interim financial reporting.[3]

Furthermore, in response to the COVID-19 pandemic, jurisdictional law or regulation, securities regulation, stock exchange rules or standard setting bodies may:

- Have amended the financial reporting framework. For example, in May 2020, the International Accounting Standards Board (IASB) issued *Covid-19-Related Rent Concessions*, which amended IFRS 16, *Leases*.
- Permit or require departures from the requirements of the financial reporting framework in preparing the interim financial information for current periods. For example, law or regulation or stock exchange rules may permit entities not to account for, or disclose the effects of, the COVID-19 pandemic on certain aspects of the interim financial statements.

As part of management's responsibility for preparing the interim financial information, ordinarily management is expected to clearly indicate the applicable financial reporting framework that has been used to prepare the interim financial information so that users are informed.

Other Information

In the current environment, some entities are reporting alternative performance measures to exclude the financial effects of the pandemic (e.g., earnings before interest, tax, depreciation, amortization, and coronavirus (EBITDAC)), or pro-forma information that excludes the effect of COVID-19. The entity may need to consider whether the financial reporting framework restricts or prohibits presentation of additional information that has not been prepared in accordance with the financial reporting framework as part of the interim financial information.

The Auditor's Review of the Interim Financial Information in Accordance with ISRE 2410

Areas of Focus in Performing the Review of Interim Financial Information

The COVID-19 pandemic may also cause challenges for the auditor in performing the interim review procedures. In addition to matters relating to the applicable financial reporting framework and other information (see previous section), the following examples indicate areas which may require increased effort from management, and where the auditor may focus:

Changes in accounting estimates (e.g., fair value measurements, allowance for expected credit losses or inventory valuation), and the potential for heightened estimation uncertainty

Application of new accounting policies as a result of new events or transactions (e.g., restructuring costs, employee termination benefits, government assistance or discontinued operations)

Accounting for modifications to agreements and contracts, or terms and conditions of service (e.g., modifications to return policies, new or modified contracts with customers or suppliers or new or modified debt agreements)

[3] Paragraph A5 of ISA 200, *Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, may be a useful reference in this regard.

- **Impairment of non-financial assets (including goodwill)**
- **Impacts to hedging relationships**
- **Tax considerations (e.g. recoverability of deferred tax assets)**
- **Potential breaches of loan covenants, including the impact on the classification of liabilities as current or non-current**
- **Impacts to management's going concern assessment**
- **Consideration of subsequent events, including whether they are adjusting or non-adjusting events**
- **New or changes to internal controls affecting the preparation of financial information**
- **Disclosure of the impact of COVID-19 on the financial position and performance of the entity**
- **Disclosure requirements in the financial reporting framework that have been triggered because of COVID-19 (e.g., disclosures related to impairments, financial instruments, discontinued operations or loan breaches)**
- **The level of materiality used by management for recognition, measurement, presentation and disclosure in the interim financial information may have been affected by the financial effects of the COVID-19 pandemic**

The following sections describe potential impacts of the COVID-19 pandemic on the auditor's interim review procedures.

Understanding the Entity and its Environment, Including its Internal Control[4]

As part of the interim review engagement, the auditor updates their understanding of the entity and its environment, including its internal control, from the understanding obtained as part of the latest audit of the annual financial statements of the entity. The procedures include inquiries of management to update knowledge obtained from the latest audit. The following provides examples of areas the auditor may want to consider because of the COVID-19 pandemic:

Inquiries of management:	Examples of the possible effect of the COVID-19 pandemic:
Effect of changes in the entity's business model and activities	For example, there may be changes in: • The entity's strategy. • The nature of revenue sources, products or services, and markets in which the entity operates, including changes in the terms offered by the entity. • How the entity conducts its operations, and the location of its operations. • Key customers and important suppliers of goods and services. • Terms of contracts.

4 Paragraphs 12-18 of ISRE 2410

Inquiries of management:	Examples of the possible effect of the COVID-19 pandemic:
	• How the entity is financed, for example its debt structure and related terms, as well as additional funding through government assistance.
Significant changes in internal control and the potential effect of any such changes on the preparation of the interim financial information	For example: • Controls may not operate as designed because of remote working arrangements, a lack of proper segregation of duties (e.g., due to layoffs or difficulties to coordinate certain duties) or the individuals with appropriate knowledge and experience may not be performing the control. • New or augmented controls may be put in place to address increased risks of error or fraud, changes in business activities or to mitigate the effect of deficiencies in other controls that are not able to operate as designed.

Understanding of the Applicable Financial Reporting Framework

As part of understanding the entity and its environment, auditors may also need to obtain or update their understanding of the applicable financial reporting framework used by management to prepare the interim financial information.[5] In doing so, auditors may need to carefully consider whether the basis of preparation is appropriate in the engagement circumstances and is not misleading, especially in circumstances when management has the option of which financial reporting framework to use or how to apply the financial reporting framework. For example, the COVID-19 pandemic may drive management to choose a financial reporting framework that best reflects the financial position and performance of the entity, or management may prepare the interim financial information using the measurement and recognition requirements of IFRS, except for certain provisions of IFRS, in order to avoid reflecting the effect of the COVID-19 pandemic.

Furthermore, auditors may need to consider whether management has been clear and transparent in the interim financial information about the basis of preparation.[6] This may be particularly important when jurisdictional law or regulation, securities regulation, stock exchange rules or standard setting bodies permit or require departures from the requirements of the financial reporting framework in preparing the interim financial information during the COVID-19 pandemic.

Fraud and Professional Skepticism

Auditors must focus on exercising professional skepticism when performing interim review procedures.[7] This may be particularly important when inquiring of management and others, as appropriate, about the

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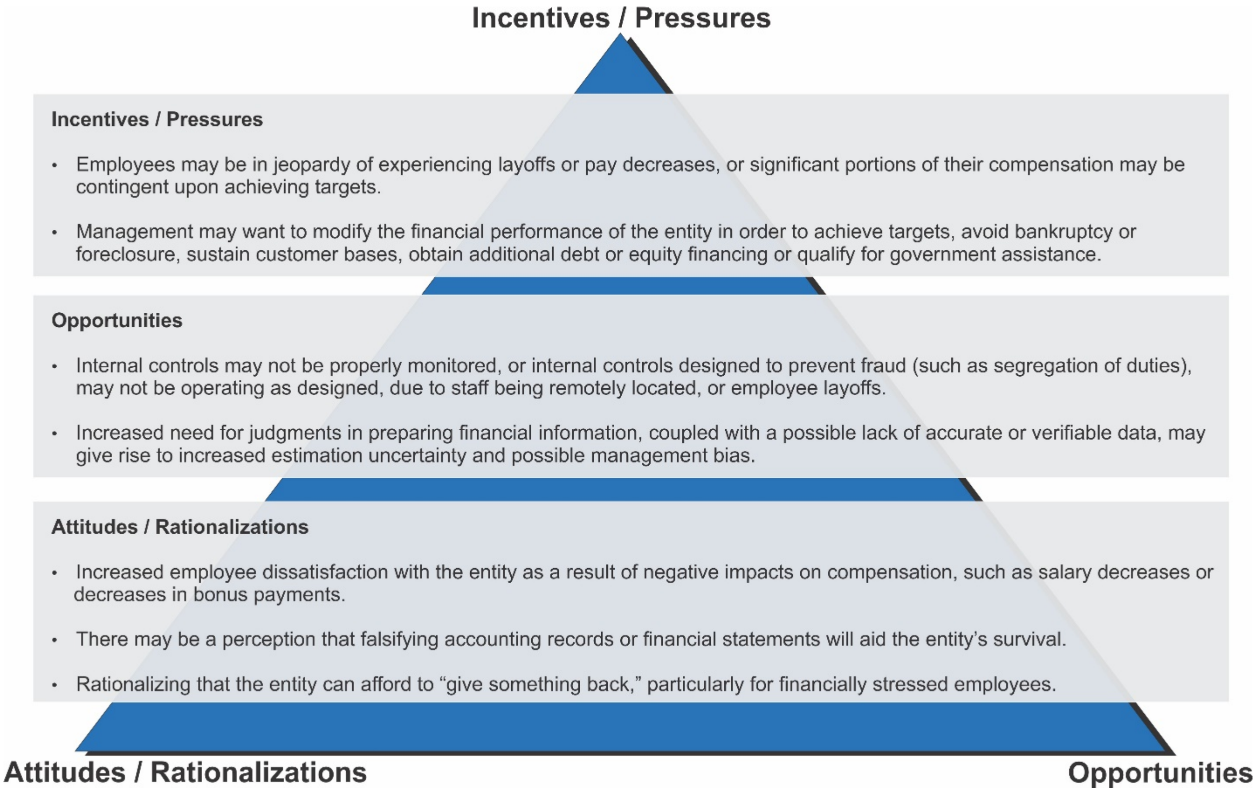
5 Paragraph 22(b)(ii) of the International Framework For Assurance Engagements ("the Assurance Framework") indicates that as part of the preconditions for an assurance engagements, the criteria (i.e., the financial reporting framework) to be applied in preparing the subject matter (i.e., the interim financial information) are suitable to the engagement circumstances, including that they exhibit the characteristics described in paragraph 44 of the Assurance Framework. Paragraphs A2–A10 of ISA 210, *Agreeing the Terms of Audit Engagements*, may provide useful considerations about the applicable financial reporting framework.

6 Paragraph 47 of the Assurance Framework indicates that the criteria (see footnote 3) need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated.

7 Paragraph 6 of ISRE 2410

risk that the interim financial information may be materially misstated as a result of fraud, and about their knowledge of fraud or suspected fraud affecting the entity.

The following examples are illustrative of events or conditions that may indicate an increased risk of fraud as a result of the COVID-19 pandemic.



Exercising professional skepticism is also important given the extent of management's judgments in preparing the interim financial information, and how the financial reporting framework may drive those judgments. For example, if interim financial information is prepared in accordance with IAS 34, IAS 36 does not permit impairment losses for goodwill to be reversed in subsequent periods;[8] therefore, management may be motivated to conclude that an impairment of goodwill is not necessary in the interim period. Auditors may need to perform additional interim review procedures in such cases.

Materiality Considerations and Evaluation of Misstatements

ISRE 2410 describes that the procedures performed to update the auditor's understanding of the entity ordinarily include considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information.[9] This consideration of materiality assists in determining the nature and extent of procedures to be performed in the review and evaluating the effect of misstatements.

The financial effects of the COVID-19 pandemic could result in a decrease to certain benchmarks used to determine materiality (e.g., profit before tax, total revenue or gross profit),[10] which could have the effect of

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[8] Paragraph 124 of IAS 36, *Impairment of Assets*

[9] Paragraph 15 of ISRE 2410

[10] Paragraphs A4-A8 of ISA 320, *Materiality in Planning and Performing and Audit*, describe the use of benchmarks in determining materiality of the financial statements as a whole and may provide useful considerations.

decreasing materiality from the latest audit of the annual financial statements of the entity. This may have a number of effects, such as:

- A decrease in materiality may give rise to uncorrected misstatements from the prior period, which were previously considered immaterial, having a material effect on the current period interim financial information. If uncorrected, the misstatements may impact the interim review conclusion. Refer to "*Departure from the Applicable Financial Reporting Framework*,*"* under the section "Reporting Considerations" below, for further information in this regard*.*

- A decrease in component materiality could affect the financial significance of components in a group audit.[11]

The COVID-19 pandemic may also give rise to more disclosures in some areas, such as accounting estimates. Often these disclosures are qualitative in nature. In considering the adequacy of disclosures in light of the applicable financial reporting framework, and whether an adjustment is required to be made for the interim financial information to be prepared in accordance with the applicable financial reporting framework, the auditor may take into account factors such as the circumstances of the entity and the importance of the disclosures to the users of the interim financial information.

Inquiries, Analytical and Other Review Procedures[12]

Inquiries, analytical and other review procedures provide a basis for forming a conclusion on the interim financial information. Given that an interim review is a limited assurance engagement, the nature of the procedures does not need to provide all the evidence that is required in an audit of financial statements. Nevertheless, the review procedures undertaken need to be sufficient to provide the auditor with a basis for an interim review conclusion.

While ISRE 2410 describes that a review does not *ordinarily* require tests of the accounting records through inspection, observation or confirmation, in the current environment the procedures undertaken may be different (in timing, nature and extent) to what may previously have been done in interim review engagements for the entity. For example, the auditor may determine it necessary and appropriate, depending on the facts and circumstances of the entity, to also perform procedures that involve inspection, observation, confirmation, recalculation or reperformance in order to be able to conclude. The auditor applies professional judgment and exercises professional skepticism in determining whether the evidence obtained from the review procedures performed is sufficient and appropriate to provide a basis for the interim review conclusion.

The examples below demonstrate how the COVID-19 pandemic may affect the nature, timing and extent of interim review procedures that are specifically described in ISRE 2410,[13] which as described above, may also be affected by materiality considerations.

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[11] Paragraphs 9(d), 9(m), 21, A5-A6 and A42-A46 of ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors),* explain component materiality and significant components, and may provide useful considerations.

[12] Paragraphs 19-25 of ISRE 2410

[13] Paragraph 21 of ISRE 2410

Review procedure:	Examples of the possible effect of the COVID-19 pandemic:
Group audits–Communicating with other auditors who are performing a review of the interim financial information of significant components	• COVID-19 may have a varying effect across the group, particularly when the group operates in diverse industries or multiple jurisdictions. As a result, there may be a need for increased communication with other auditors performing interim review procedures at components, and increased direction, supervision and review of the work they perform for the purpose of the review engagement. • A component that was identified as a non-significant component in the latest audit of the annual financial statements may have become significant due to a decrease in materiality thresholds used, or because it is now likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances. • The design or execution of group-wide controls may have changed (including controls over the consolidation process). As such, there may be a need to communicate with component auditors about the effect of these changes on the interim financial information.
Inquiring of members of management responsible for financial and accounting matters, and others as appropriate	• Inquiries of management would need to include the effect of COVID-19 on the preparation of the interim financial information in accordance with the applicable financial reporting framework. Examples of areas which may need to be addressed as part of the inquiries of management are highlighted earlier in this publication under the heading "*Areas of Focus in Performing the Review of Interim Financial Information.*" • Given the increased need for management to apply judgment in formulating estimates in the current environment, inquiries may need to include matters such as: o The estimation methods, assumptions and data inputs used by management in preparing the interim financial information. o The information used as a basis for the accounting estimates and how management has determined the reliability of such information in the current environment. o The intent and ability of management to carry out specific courses of action on behalf of the entity.

Review procedure:	Examples of the possible effect of the COVID-19 pandemic:
Applying analytical procedures to the interim financial information that are designed to identify relationships and individual items that appear to be unusual, and may reflect a material misstatement in the interim financial information	• Period-over-period analytical procedures, while potentially less effective due to incomparable financial information, may still be useful. For example, if it is expected that the COVID-19 pandemic has severely impacted the entity's results, the auditor may question if the financial information indicates there were no significant changes period-over-period. • Auditors may be able to use analytical procedures if it is possible to develop expectations of the financial information that factor in the impact of the COVID-19 pandemic and other drivers affecting the entity. For example, expectations may be able to be developed using information and trends from the entity's industry.

Going Concern

Management's Responsibilities

Management is responsible for assessing the entity's ability to continue as a going concern. The requirements in the financial reporting framework for management's assessment of going concern at the interim period are likely to be the same as the requirements in the financial reporting framework for the annual financial statements.[14] In light of the deteriorating economic environment resulting from the COVID-19 pandemic, entities may, for example, face reduced revenues and cash flows and therefore management's assessment of the entity's ability to continue as a going concern may be significantly affected.

Some financial reporting frameworks establish the period for which going concern needs to be considered. For example, IAS 1 describes that an entity shall consider the period twelve months from the end of the reporting period in their going concern assessment.[15] In some jurisdictions, this period may have been extended by local regulatory requirements.

The IAASB Staff Audit Practice Alert, "*Going Concern in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19*" may be useful regarding management's responsibilities around the going concern assessment for interim financial information. It also highlights examples of audit procedures and focus areas in relation to the going concern assessment that may be useful in considering the nature and extent of procedures to perform in the review of interim financial information.

Auditor's Responsibilities[16]

The effect of the COVID-19 pandemic on management's going concern assessment may result in the auditor:

- Performing additional or enhanced procedures. While it is not ordinarily necessary in a review of interim financial information to corroborate the feasibility of management's plans and whether the

[14] See, for example, paragraph 4 of IAS 1, *Presentation of Financial Statements*

[15] Paragraph 26 of IAS 1

[16] Paragraphs 27-28 and 56-59 of ISRE 2410

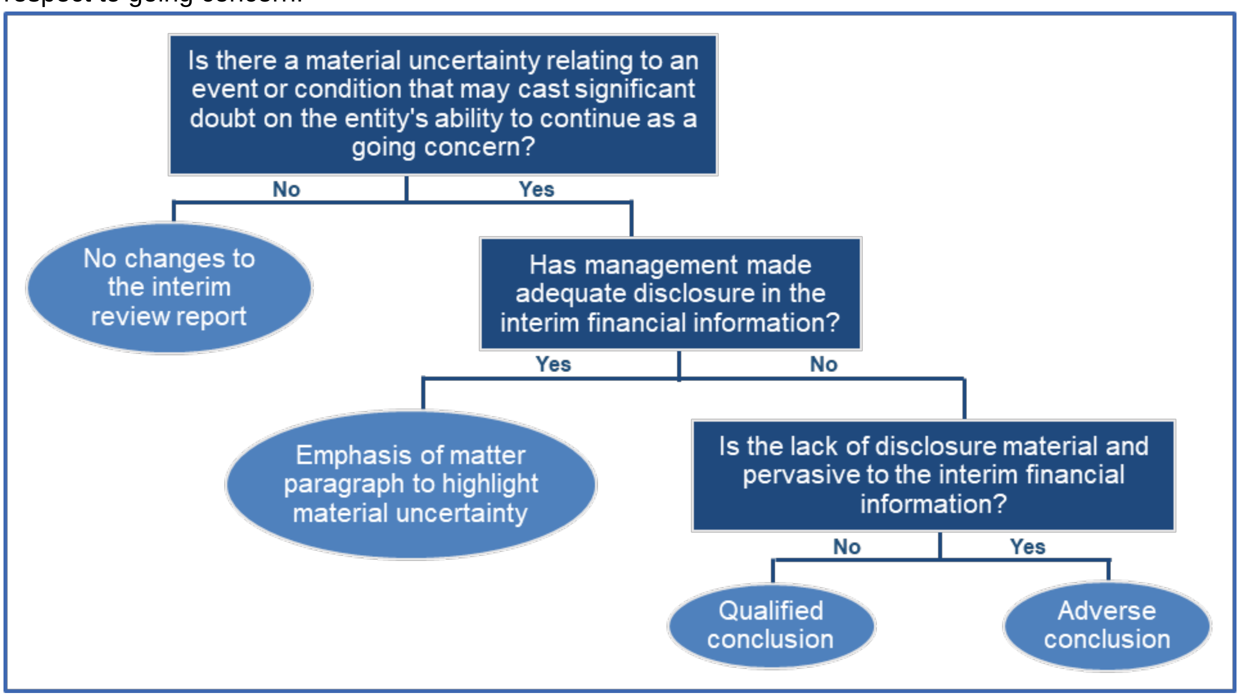
outcome of these plans will improve the situation, the auditor should exercise professional judgment and professional skepticism in determining the nature and extent of the procedures necessary in order to provide a basis for the interim review conclusion. For example, the auditor may determine it appropriate to recalculate future cash flows or inspect key contracts.

- Reporting with respect to going concern in the interim review report (see the decision tree below).

As noted above, the period for which management is required to assess the going concern assumption is sometimes set out in the applicable financial reporting framework, or in law or regulation. ISRE 2410 does not specify the period that the auditor should consider. In the current environment, it may be useful to consider the related requirements of ISA 570 (Revised), *Going Concern*, i.e., the auditor may use the same period as used by management, unless the period is less than 12 months, in which case they may request that management extend its assessment to 12 months from the date of the financial statements[17] (i.e., in this case, the date of the interim financial information, which is the end of the interim period covered by the interim financial information).

> The International Federation of Accountants plans to publish information in July 2020 that further explains the differences in going concern reporting between an interim review report prepared in accordance with ISRE 2410 and an auditor's report prepared in accordance with the ISAs.

If, based on the review procedures performed and taking into account the facts and circumstances of the entity, it is determined that a material uncertainty exists about the entity's ability to continue as a going concern, this will impact the interim review report. Going concern reporting requirements differ between an interim review report prepared in accordance with ISRE 2410, and an auditor's report prepared in accordance with the ISAs.[18] The diagram below explains the interim review report considerations with respect to going concern:



17 Paragraph 13 of ISA 570 (Revised)

18 For details on auditor reporting more generally in accordance with the ISAs, refer to IAASB Staff Audit Practice Alert, "Auditor Reporting in the Current Evolving Environment Due to COVID-19."

ISRE 2410 does not address circumstances when the use of the going concern basis of accounting is inappropriate. In such cases, the auditor may find it useful to refer to paragraph 21 of ISA 570 (Revised).

Subsequent Events

Management's Responsibilities

In the current environment, management's determination and treatment of adjusting or non-adjusting events after the interim period are likely to be more challenging and involve more judgment.

Auditor's Responsibilities[19]

The uncertainties and challenges associated with the COVID-19 pandemic may give rise to increased management judgment with respect to subsequent events, and may affect the auditor's judgments when performing the review procedures. There may be a need to make additional inquiries or perform other procedures related to subsequent events, such as inspection of underlying information supporting management's judgments.

The IAASB Staff Audit Practice Alert, "*Subsequent Events in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19*," explains management's responsibilities related to subsequent events and includes examples of events or conditions that may be affected by, or exist as a result of, the COVID-19 pandemic.

Management Representations[20]

In addition to the matters on which ISRE 2410 requires the auditor to obtain representations, the auditor also may obtain representations as are appropriate related to other matters specific to the entity's business or industry. For example, the auditor may obtain representations from management regarding going concern in the current environment. In this regard, representations similar to those in paragraph 16(e) of ISA 570 (Revised) may be requested, such as management's plans for future actions and the feasibility of these plans.

Communication with Management and Those Charged with Governance[21]

Regular and effective communication with management and those charged with governance is essential in the current environment because events and changes are occurring at a rapid pace and may impact the interim financial information being reported.

Reporting Considerations

Departure from the Applicable Financial Reporting Framework[22]

Based on the results of the review procedures performed, the auditor may identify matters that require a material adjustment to the interim financial information. Impacts of the COVID-19 pandemic may amplify conditions that give rise to certain material adjustments (e.g., inadequate disclosures or inappropriate application of accounting policies). The diagram below reflects the impact of a departure from the applicable financial reporting framework on the interim review report.

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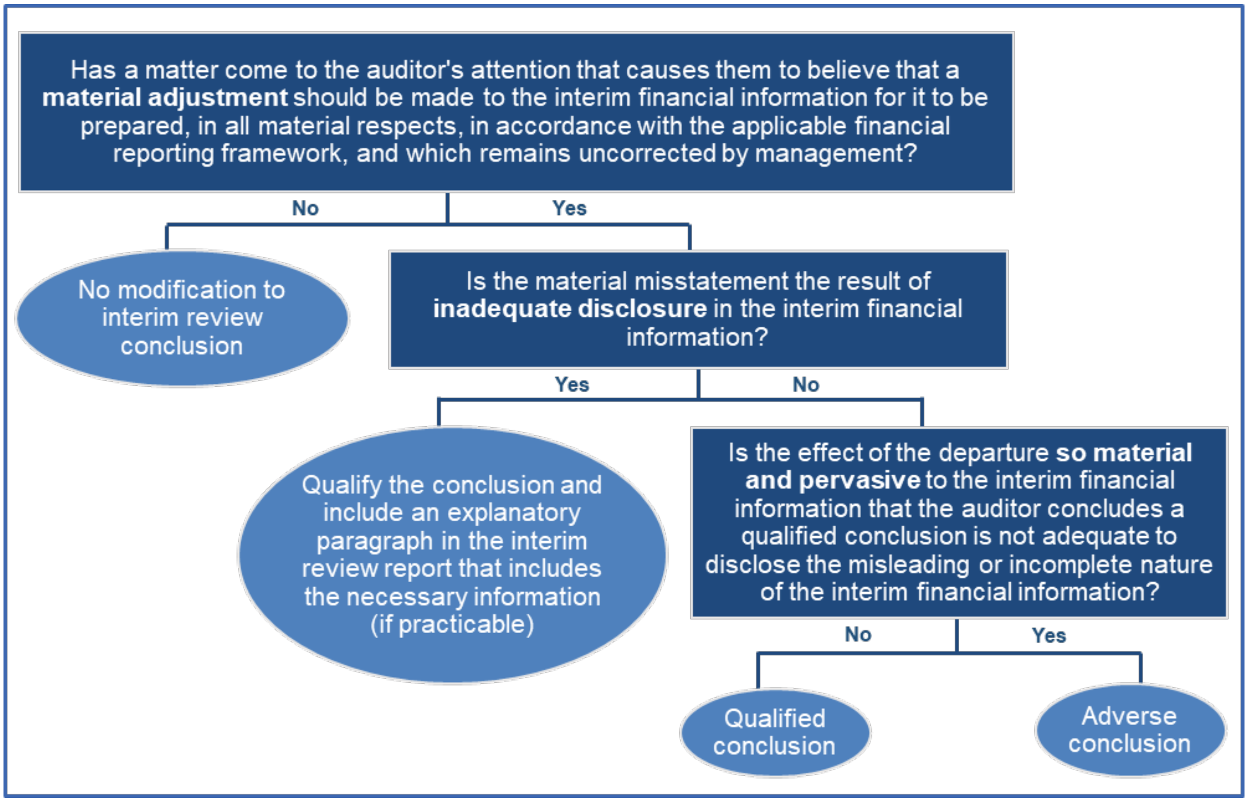
19 Paragraph 26 of ISRE 2410

20 Paragraphs 34-35 of ISRE 2410

21 Paragraphs 38-42 of ISRE 2410

22 Paragraphs 45-47 of ISRE 2410



Departure from the Applicable Financial Reporting Framework Permitted or Required by Jurisdictional Law or Regulation, Securities Regulation, Stock Exchange Rules or Standard Setting Bodies

There may be an effect on the interim review conclusion in circumstances when jurisdictional law or regulation, securities regulation, stock exchange rules or standard setting bodies permit or require departures from the requirements of the applicable financial reporting framework in preparing the interim financial information in the current period (see earlier discussions about the applicable financial reporting framework).

The auditor considers the facts and circumstances of the entity, in view of the applicable financial reporting framework (i.e., what it encompasses) and the review procedures performed (e.g., how the applicable financial reporting framework is applied and whether any departure causes the auditor to believe that a material adjustment should be made to the interim financial information), in determining whether there is an effect on the interim review conclusion. For example, the appropriate authority in a jurisdiction may have issued a directive allowing entities not to recognize certain impairments of assets in the interim financial information as a result of the COVID-19 pandemic, and advising entities to provide additional disclosures relating to the accounting estimates affected. In these situations, non-recognition of an impairment relating to an asset not covered by the regulator's directive would be a departure from the applicable financial reporting framework, and the auditor may need to issue a qualified or adverse conclusion (see preceding section, "*Departure from the Applicable Financial Reporting Framework*").

Scope Limitations[23]

In the current environment, there may be more circumstances where the review is unable to be completed due to a limitation on scope. For example, the auditor may not be able to perform inquiries or obtain information from management in a fully remote environment on a timely basis. As a result, there may be increased circumstances when the auditor is unable to issue the report, or if required to issue the report, may:

- Qualify the conclusion if the scope limitation is confined to one or more specific matters that are not pervasive to the interim financial information; or
- Disclaim a conclusion.

Emphasis of Matter Paragraphs[24]

Auditors are not precluded by ISRE 2410 to include additional matters in the interim review report. In particular, the auditor may determine it necessary and appropriate to include an emphasis of matter paragraph to highlight other matters of significant uncertainty resulting from the effects of COVID-19, and which have been adequately disclosed in the interim financial information. For example, it may be determined appropriate to emphasize management's disclosures about:

- How the COVID-19 pandemic has affected the changes in financial position and performance of the entity since the end of the last annual reporting period.
- Certain accounting estimates (e.g., expected credit losses) that have significantly increased estimation uncertainty.

Matters highlighted in an emphasis of matter paragraph in the interim review report, may later be considered matters that required significant auditor attention when determining "key audit matters" in connection with the audit of the annual financial statements of the entity. Refer to Staff Audit Practice Alert "*Auditor Reporting in the Current Evolving Environment Due to COVID-19*" for further details.

Other Information

Paragraphs 36-37 of ISRE 2410 describe the auditor's responsibilities for other information that accompanies the interim financial information (e.g., in the current environment this would include alternative performance measures or pro-forma information that excludes the financial effects of the COVID-19 pandemic). In particular, paragraph 36 describes the auditor's considerations in circumstances when management presents other information that more positively portrays the financial performance of the entity, and is given excessive prominence, is not clearly defined, or is not clearly reconciled to the interim financial information. The auditor may also need to consider whether the financial reporting framework restricts or prohibits management from presenting other information that has not been prepared in accordance with the applicable financial reporting framework as part of the interim financial information.

Auditors should exercise professional skepticism when reading the other information for the purpose of identifying material inconsistencies, for example, being aware that the adjustments to the financial information to exclude the effect of the COVID-19 pandemic may include adjustments not related to the COVID-19 pandemic.

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[23] Paragraphs 48-54 of ISRE 2410

[24] Paragraphs 55 and 60 of ISRE 2410

Staff Audit Practice Alert
April 2020

COVID-19

Going Concern in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19

This publication has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to, and concluding on, the appropriateness of management's use of the going concern basis of accounting in accordance with the International Standards on Auditing™ (ISA™).

This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to going concern, as well as any modifications made to the auditor's report in respect of any uncertainties related to going concern.

Many factors impact the ability of an entity to continue as a going concern. These factors include the industry and geographic area of operations, the financial health of customers and suppliers, and financial liquidity and solvency of the entity. As a result of the COVID-19 pandemic and the associated deteriorating economic environment, reduced revenues and cash flows could raise questions about the entity's ability to meets its current or new obligations and comply with debt covenants.

This Staff Audit Practice Alert focuses on the implications of the COVID-19 pandemic for the auditor's work related to going concern, including the potential impacts on:

- Management and the auditor's respective responsibilities in relation to going concern;
- Risk assessment procedures undertaken by the auditor and their evaluation of management's assessment of the entity's ability to continue as a going concern;
- Periods beyond management's assessment;
- Additional procedures required when events or conditions are identified which may cast doubt on the entity's ability to continue as a going concern;
- Implications for the auditor's report and the auditors' consideration of Other Information; and
- Significant delays in the approval of financial statements.

In completing work related to going concern in the current environment, auditor's should focus on all the requirements set out in ISA 570 (Revised), *Going Concern*, with full consideration given to the entity's specific circumstances before any conclusions are reached. In completing the work on going concern, the importance of exercising professional skepticism is amplified, particularly where management have determined that the current circumstances are not expected to have any material financial impact on the entity and that no material uncertainties related to going concern exist for the entity.

Management's and Auditor's Responsibilities

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future, unless management intends to liquidate the entity or cease operations, or has no realistic alternative but to do so. When the going concern basis of accounting is used, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Management's Responsibilities

- **Assessing the entity's ability to continue as a going concern**, either:
  - In terms of an explicit requirement in the applicable financial reporting framework;[1] or
  - Where there is no explicit requirement in the applicable financial reporting framework, but going concern is still a fundamental principle in preparing the financial statements
- **Making a judgment at a point in time** about inherently uncertain future outcomes of events or conditions
- **Making and disclosing judgments** relevant to:
  - The degree of uncertainty associated with the outcome of an event or condition (for example, how this increases the further into the future an event or condition or the outcome occurs)
  - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors
  - The future (based on information available at the time at which the judgment is made)

Auditor's Responsibilities

- **Obtaining sufficient appropriate audit evidence**, **and concluding on**, the appropriateness of management's use of the going concern basis of accounting
- **Concluding**, based on the audit evidence obtained, **whether a material uncertainty exists** about the entity's ability to continue as a going concern
- **Reporting** as appropriate

The potential effects of inherent limitations on the auditor's ability to detect misstatements are greater for future events or conditions that may cause the entity to cease to continue as a going concern. …The absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in the auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern (ISA 570 (Revised), paragraph 7).

1 For example, International Accounting Standard (IAS) 1, Presentation of Financial Statements, requires management to make an assessment of the entity's ability to continue as a going concern (paragraphs 25-26)

With circumstances changing rapidly due to COVID-19, this is likely to affect how management and auditors fulfill their respective responsibilities:

Management	Auditors
• Management's assessment of the entity's ability to continue as a going concern is likely to be more challenging	• A corresponding need for additional or enhanced audit procedures for the auditor to be able to conclude on the appropriateness of management's assessment with regard to going concern (areas for consideration in the current circumstances are described below in this document) • More robust procedures may assist the auditor in concluding in the current environment
• Management and those charged with governance may need to provide users of financial statements additional and more robust disclosures in the entity's financial statements relating to events or conditions affecting the entity's ability to continue as a going concern	• Changes to the auditor's report may be more readily expected (depending on the nature and circumstances of the entity) in the form of: o "Material uncertainty related to going concern" paragraphs (in accordance with ISA 570 (Revised)), where appropriate o Modifications of the auditor's opinion (i.e., qualified, adverse or disclaimers of opinion) where necessary o Enhanced or new key audit matters (where key audit matters are included in the auditor's report)

Timely and effective communication between management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern during these uncertain times.

Risk Assessment Procedures and Evaluating Management's Assessment

ISA 570 (Revised) requires the auditor, when performing risk assessment procedures as required by ISA 315 (Revised),[2] to consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern, and evaluate management's assessment of the entity's ability to continue as a going concern.[3]

[2] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

[3] ISA 570 (Revised), paragraphs 10 and 12

The COVID-19 pandemic is likely to have significant implications for global economies and markets for certain industries such as hospitality, retail and travel. The downturn will result in a significant increase in both the volume and severity of events and conditions that may in some instances cast doubt on an entity's ability to continue as a going concern. However, this does not necessarily mean that a material uncertainty automatically exists—the increased risk of significant doubt on an entity's ability to continue as a going concern will rather depend on the nature and circumstances of the entity, including the industry in which it operates.

Examples of events or conditions that may exist as a result of the COVID-19 pandemic include:

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
Loss of a major market, key customer(s), revenue, labor shortages	The COVID-19 pandemic has prompted the introduction of public health measures in many countries, sometimes leading to the closure of 'non-essential business' or a change in the model of working whereby staff members are encouraged, or required in some instances, to work from home. Many businesses are likely to be adversely affected by this. For example, measures requiring the closure of non-essential stores will likely lead to lower sales if the business is unable to make up any shortfall through online sales. Demand, now and after the pandemic, is likely to change for some products and services. For example, business in the hospitality and travel industries may see a significant detrimental impact on revenues.	Has management considered the impact of: • Revenue losses • Plans to address any shortfalls • Supply chain and potential delivery issues (may impact ability to fulfill orders) • Impact of labor shortages to continue operating at planned capacity • Grants and other relief provided by governments (such as relief in the form of deferral of payments) • How long business disruption may continue to affect the entity once any restrictions have eased
Significant deterioration in the value of assets used to generate cash flows	Asset valuations, given the current uncertainty in both local and global markets, are likely to be more challenging. Valuations based on fair value, in particular, may be more challenging as values fluctuate more frequently and severely. Valuations based on projected future cash flows are also likely to be significantly more challenging, as developing robust models for cash flows into the future may be more difficult given current volatility and uncertainty.	• The reasonableness of assumptions used by management in their valuation calculations, including consistency of use across different calculations (where needed) • Whether there is known contradictory information in relation to an assumption used • If an expert has been used to assist in performing the valuation, how the expert has developed their assumptions

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
		• If, and how, in the context of management's assessment period, whether due consideration has been given to the current uncertainty present in both local and global markets, and related future prospects
Significant deterioration in the value of current assets - Inventory	Depending on the nature of the business, and the perishability of any inventories, disruption in the ability to carry on with business activities, including the closure of non-essential physical stores, may mean some entities will need to consider significant inventory write-downs. Any seasonal items of inventory may also require impairments if they cannot be sold or must be sold at reduced prices.	How management has considered: • Possible write-downs or write-offs of inventory • How business disruption may continue to affect the entity once any restrictions have eased (e.g., the continuation of reliable supply chains)
Delay in the launch of new products or services	Many businesses, as a result of reduced demand or availability of parts or components, have seen a need to delay the launch of new products or services. Where an entity's going concern status may have been dependent on the imminent launch of a product or service, it's delay may have a detrimental impact on the entity's ability to continue as a going concern.	• How management has taken into account the financial impact on the entity of the delay in launch, including other associated costs such as legal or other committed costs
Foreign exchange fluctuations	Foreign exchange rates have fluctuated significantly. Entities with significant international transactions may need to factor in unexpected losses (or gains) on foreign currency purchases, on sale contracts, receivables or debt denominated in foreign currencies, or on forward exchange or other derivative contracts.	• How have foreign exchange fluctuations been taken into account, including the impact of any hedging arrangements to reduce uncertainty • Whether sensitivity on movements in exchange rates has been taken into account

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
Measurements affected by increased uncertainty	Entities will need to determine whether, and the degree to which, future cash flows have been impacted by increased uncertainty (e.g., calculations based on fluctuating rates such as interest rates or foreign exchange rates), taking into account: • The unknown nature of the future • The duration of the COVID-19 pandemic • The timing of when the future cash flows may be expected	• In evaluating management's assessment of the impact of future fluctuating rates and other relevant factors influencing future cash flows, the auditor may focus on: o The underlying assumptions, including the consistency of these with other areas of the audit o The source used to determine the reasonableness of the assumptions o Whether sensitivity has been considered with respect to movements in fluctuating rates
Counterparty credit risk	Entities will need to determine whether there is significant counterparty credit risk, i.e., when the entity has significant financial assets and whether the counterparty intends, or is able to, honor the contract	• How management has assessed the recoverability of financial assets, including whether the assumptions used are reasonable and consistent with other information known to the auditor
The entity's solvency	Government support is, at the moment, generally focused on providing short-term liquidity to businesses requiring support. Actions taken by entities now to maintain liquidity, such as deferral of payments or receipts of grants to offset costs, may potentially affect the entity's longer-term solvency.	• How management has assessed the entity's longer- term solvency, including communication management have had with their finance providers (e.g., banks and other lenders) regarding longer term solvency and covenants • How management has performed any 'stress-testing' that may help understand the solvency risks of the entity, and whether the assumptions used in the stress testing adequately reflect the possible circumstances

Event or Condition	Potential impact on management's assessment of going concern	Potential matters for auditor consideration when evaluating management's assessment
		• How the entity will be able to repay any additional loans taken • How the entity will meet previously deferred payments • How management has taken into account any regulatory guidance issued to alleviate the impact of the COVID-19 pandemic

Period Beyond Management's Assessment

ISA 570 (Revised), paragraph 15, sets out that the auditor shall inquire of management as to its knowledge of events or conditions, beyond the period of management's assessment, that may cast significant doubt on the entity's ability to continue as a going concern.

The period for which management's assessment is required is set out in the applicable financial reporting standards or is determined by law and regulation if a longer period is required. ISA 570 (Revised) requires that the same period be used unless the period is less than 12 months, in which case the auditor is required to request that management extend its assessment to 12 months from the date of the financial statements.[4]

Though longer-term events or conditions, beyond the period of management's assessment, may be more challenging to identify in the current circumstances, the COVID-19 pandemic is likely to impact many entities significantly, such as the longer-term disruption of supply chains. This may lead to short-term disruption (for example many businesses may be struggling to source supplies), but also a longer-term inability to process or fulfil orders if supply chains are slow to recover. Auditors may consider how management are seeking to resolve supply chains issues, what alternatives might exist and the timescale for any potential resolution.

Additional Procedures When Events or Conditions are Identified

ISA 570 (Revised), paragraph 16, sets out that "if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors."

4 ISA 570 (Revised), paragraph 13

As it is likely that the COVID-19 pandemic will result in events and conditions that may cast significant doubt on an entity's ability to continue as a going concern, it is also more likely that auditors may need to perform the additional procedures in accordance with ISA 570 (Revised), paragraph 16. In addition, the auditor may also wish to consider whether management has:

- Developed and implemented actions and processes so that they can continue to operate an effective control environment, in particular how key reporting and other significant controls have been addressed in changed circumstances.
- Considered how they will secure reliable and relevant information, on a continuing basis, in order to manage the future operations, including, for example, the flow of financial information from other parts of the business, e.g., branches and divisions.

Paragraph A16 of ISA 570 (Revised) also includes some further examples of audit procedures that may be relevant to the requirement in paragraph 16 in the circumstances.

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action: (i) Evaluate the reliability of the underlying data generated to prepare the forecast; and (ii) Determine whether there is adequate support for the assumptions underlying the forecast.	Analyzing and discussing cash flow, profit and other relevant forecasts with management.	• Previously prepared budgets and forecasts may be of less relevance because of the rapidly changing economic environment and may require significant revision by management before being considered by the auditor. • Given how uncertain and volatile global markets are, forward looking forecasts are likely to be more difficult to make, and therefore audit. Accordingly, areas of focus could include: o Any assumptions used, and if they are reasonable given the current circumstances. For example, lenders giving new or extended credit facilities may incur additional charges for highly exposed industries or exchange fluctuations on foreign denominated debt may severely impact future cash flow forecasts. o The consistency of the same assumptions used by the entity for different purposes. o How any sensitivity analysis that has been performed has been used to substantiate the assumptions applied, or if different scenarios have been

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
		prepared to reflect the rapid changes in the environment, how this has impacted management's assessment. o Contractual arrangements that have been modified may impact future cash flow forecasts. o Changes needed to expected taxes because of changes to tax rates or tax laws (e.g., some jurisdictions may have implemented support measures through adjustments in the tax system). Regular updates to management's assessment and the auditor's evaluation may be required given the evolving nature of the outbreak.
Evaluate management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.	Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.	Globally, governments have announced packages of measures to support business, often focused on providing liquidity to cover business costs. For example, in some countries, grants have been provided to pay a certain amount of salary costs for an interim period. In some jurisdictions, governments have also acted to encourage the banking sector to provide emergency loans to businesses in need (in particular in relation to smaller businesses) and to be more flexible regarding breaches of covenants. In evaluating management's assessment of going concern of an entity, auditors may consider, for example, the extent to which an entity is relying on such support (if available) and whether it is sufficient to cover any short term liquidity issues, as well as if the conditions attached to any support are likely to be met by the entity. Auditors' may also consider: • Reviewing recent correspondence with debt issuers to obtain an understanding of the likelihood of continued support. • The feasibility and impact of any restructuring plans to cut operating costs.

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
		• The ability to pay when costs that have been deferred come due.
	Reading the terms of debentures and loan agreements and determining whether any have been breached.	As the financial impact of the COVID-19 pandemic is likely to be significant to some entities, it is important that the auditor considers the impact of weakened credit ratings and whether any covenants have been breached, or could be breached, and how management intends to resolve the matter with the debt issuer. For example, breaches may arise as a result of temporary changes in the entity's reported earnings, suspension of business or other material adverse event clauses, or as a result of unavoidable delays in providing debt issuers with audited financial statements, covenant compliance certificates, or third-party valuations. Another consideration is in relation to measures taken in some jurisdictions with regard to debt covenants. For example, in some jurisdictions, prudential regulators have appealed to debt providers to consider carefully their responses to potential breaches of covenants arising directly from the COVID-19 pandemic and its consequences, including not to impose new charges or restrictions on customers in certain circumstances.
	Confirming the existence, terms and adequacy of borrowing facilities.	Some entities may need to rely more on borrowing or credit facilities as the COVID-19 pandemic impacts them financially in the near to medium term. Therefore, the auditor's consideration of the existence of both short-term liquidity and longer-term solvency arrangements with lenders is also an important factor in supporting the auditor's conclusion regarding going concern.

Implications for the Auditor’s Report

ISA 570 (Revised), paragraphs 17 and 18 require auditors to:

- ***Evaluate whether sufficient appropriate audit evidence has been obtained regarding, and to conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.***
- ***Based on the evidence obtained, conclude whether, in their judgment, a material uncertainty exists relating to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.***

While the impact of the COVID-19 pandemic may amplify events or conditions giving rise to modifications to the auditor’s report or opinion, it does not in itself mean a modification is inevitable–this will depend on the facts and circumstances of each entity.

Disclosures Related to Going Concern

The applicable financial reporting framework sets out the specific disclosure requirements related to the going concern of the entity, including significant judgments and assumptions. Specific disclosures are ordinarily required when management concludes that there is significant doubt as to the entity’s ability to continue to as a going concern (for example for a period of 12 months from the date of the financial statements). In addition, other disclosures regarding risks may also be required, such as how management is managing its liquidity and credit risks.

In the current circumstances, given the uncertainty about the immediate outlook for many entities, more audited financial statements will likely include expanded disclosures about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

There may also be circumstances where financial statements prepared in accordance with a fair presentation framework may require additional disclosures to achieve fair presentation. For example, in evaluating the fair presentation of the financial statements, and depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation notwithstanding that there are no explicit requirements for such disclosure by the applicable financial reporting framework.

ISA 570 (Revised), paragraphs 19 and 20, require the auditor to determine whether the financial statements provide adequate disclosure about the identified events or conditions related to going concern and, as applicable, management's plans in this regard.

The required level of disclosure will depend on the facts and circumstances of each entity – not all entities are affected by the current evolving environment to the same extent or in the same manner. The auditor uses professional judgment in determining the adequacy of the disclosures and the implications of inadequate disclosures on the auditor's opinion or within the auditor's report.

Implications on the Auditor's Report

The Appendix to ISA 570 (Revised) provides illustrative examples of Auditor's Reports Relating to Going Concern

The potential implications for the auditors' report, based on the auditor's judgment in light of the facts and circumstances should concerns about going concern be identified, are summarized in the table below:

Auditor's Conclusion (in the Auditor's Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor's Report [5]	ISA 570 (Revised) Reference
• Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have been made	• An unmodified opinion is expressed • A separate section is included under the heading **"Material Uncertainty Related to Going Concern,"** which also draws attention to the relevant disclosures within the financial statements	Paragraph 22
• Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have NOT been made	• A **qualified** or **adverse** opinion is expressed, as appropriate in accordance with ISA 705 (Revised)[6] • State in the **"Basis for Qualified (Adverse) Opinion"** section of the report that a material uncertainty exists that may cast a significant doubt on the entity's ability to continue as a going concern and that the matter is not appropriately disclosed in the entity's financial statements	Paragraph 23

[5] Examples of auditor's reports in various circumstances where relevant going concern issues have been concluded on are presented in the Appendix to ISA 570 (Revised).

[6] ISA 705 (Revised), *Modification to the Opinion in the Independent Auditor's Report*

Auditor's Conclusion (in the Auditor's Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor's Report [5]	ISA 570 (Revised) Reference
• Financial statements have been prepared on a going concern basis • The use of the going concern basis of accounting is inappropriate	An **adverse** opinion is expressed	Paragraph 21
• The entity is not a going concern • The financial statements have been appropriately prepared on a basis other than going concern • The alternative basis of accounting is appropriate in the circumstances	• An **unmodified opinion** may be able to be expressed if there is adequate disclosure about the basis of accounting on which the financial statements are prepared • It may be considered appropriate to include an emphasis of matter paragraph in accordance with ISA 706 (Revised)[7] drawing the user's attention to the alternative basis of accounting and the reasons for its use	Paragraph A27

In considering the implications on the auditor's report, the auditor also considers whether sufficient appropriate audit evidence has been obtained to be able to conclude on management's assessment of going concern. If the auditor is unable to obtain sufficient appropriate audit evidence in the current environment, the auditor determines the effect on the auditor's report in accordance with ISA 705 (Revised). For example, having greater difficulty in obtaining evidence regarding future forecasts may lead to a limitation of scope. Auditor reporting is addressed more generally in a separate Staff Alert: *Auditor Reporting in the Current Evolving Environment–Audit Considerations Due to the Impact of COVID-19.*[8]

Key Audit Matters

Key audit matters are included in the auditor's report in accordance with ISA 701[9] to focus on those matters that, in the auditor's professional judgment, were of most significance in the audit of financial statements of the current period.

A matter giving rise to a material uncertainty related to going concern is by its nature a key audit matter as contemplated in ISA 701.[10] In the current environment it is also likely that for some entities significant auditor judgments will be needed with regard to the auditor's conclusions on management's use of the going concern basis of accounting, which may therefore be determined to be a key audit matter.

Communicating key audit matters is not a substitute for reporting in accordance with ISA 570 (Revised) when a material uncertainty related to going concern exists, as described above. ISA 701, paragraph 15, explains that matters giving rise to a modified opinion in accordance with ISA 705 (Revised) or a material

[7] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[8] To be published early May 2020

[9] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

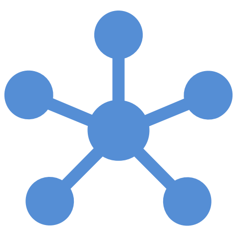
[10] ISA 701, paragraph 15

uncertainty related to going concern in accordance with ISA 570 (Revised), shall not be described in the Key Audit Matters section of the auditor's report. Rather, the auditor shall report on these matters as required by ISA 705 (Revised) or ISA 570 (Revised), respectively, and include in the Key Audit Matters section a reference to the relevant sections included in the auditor's report in accordance with these ISAs.

Communication with Those Charged with Governance

ISA 570 (Revised), paragraph 25, sets out the requirements for communication with those charged with governance when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. The required communication includes whether the events or conditions constitute a material uncertainty, the appropriateness of management's use of the going concern basis, the adequacy of the related disclosures in the financial statements and the implications for the auditor's report, where applicable.

Regular and effective communications with those charged with governance is likely to be even more important in the current environment. The impact of the COVID-19 pandemic on entities is rapidly changing. Events are occurring at such a pace that considerations made may no longer be valid even a short time after they have been factored into either management's or the auditor's, assessments. The auditor should consider how he or she plans to communicate with those charged with governance in a timely manner, with regard to both reporting and other matters required to be communicated.



Potential Impact on the Auditor's Considerations in Relation to Other Information in Accordance with ISA 720 (Revised)[11]

Some jurisdictions may require additional reporting within the 'Other Information' in the annual report. For example, in some jurisdictions, management may need to comment on an entity's long-term viability or strategy.

The auditor's responsibilities relating to Other Information are contained within ISA 720 (Revised) including when matters are disclosed in the 'Other Information' related to an entity's going concern or viability or strategy. While reading the other information the auditor is required to, among other matters:

- Consider whether there is a material inconsistency between the Other Information and the financial statements. As the basis for this consideration, the auditor shall compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and

- Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

ISA 720 (Revised), paragraphs 16 to 19, explains the auditor's response, including setting out appropriate actions, if a material inconsistency is identified or when the auditor concludes that a material misstatement of the other information exists.

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

Significant Delays in the Approval of Financial Statements

ISA 570 (Revised), paragraph 26, requires that if there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16 of ISA 570 (Revised), as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18 of ISA 570 (Revised).

The COVID-19 pandemic may be a contributing factor to a delay in the approval of financial statements, with some jurisdictions already allowing extensions to filing deadlines. If a significant delay occurs, auditors should consider the ISA 570 (Revised) requirements described above and ensure that communication with management and those charged with governance remains open and effective, allowing both auditors and those charged with governance to fulfil their respective responsibilities despite the significant delay in approval of the financial statements.

Documentation

ISA 230[12], paragraph 8, requires the auditor to document the nature, timing and extent of the audit procedures performed, the results of the audit procedures performed, and the audit evidence obtained, as well as significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Accordingly, it is expected that the auditor's procedures with regard to going concern would be documented to explain how the auditor's conclusions have been determined, and which would form the basis for the auditor's report, including any modifications to the opinion or other changes needed to the auditor's report.

12 ISA 230, *Audit Documentation*

IAASB®

Staff Audit Practice Alert
May 2020

COVID-19

Auditor Reporting in the Current Evolving Environment Due to COVID-19

This publication has been prepared to highlight key areas of focus in the current environment relevant to auditor reporting in accordance with the International Standards on Auditing™ (ISA™) and International Standards on Review Engagements™ (ISRE™). This publication does not amend or override the ISAs and ISREs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs and ISREs.

This Audit Staff Practice Alert is intended only to address auditor reporting in relation to the auditor conducting an audit of financial statements of an entity in accordance with ISAs, or when the auditor undertakes an engagement to review interim financial information of that same entity in accordance with ISRE 2410.[1]

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the potential impacts to the audit and interim review reports arising from matters that have become more pertinent in the current circumstances.

The effects of the COVID-19 pandemic have significant global implications for economies, markets and businesses, including volatility and possible material uncertainties. In such unpredictable circumstances, auditors of entities affected by these conditions will need to focus on the potential impacts for auditor and interim review reports, which are used to communicate audit opinions or review conclusions, respectively, to intended users. Appropriate actions will depend on the specific engagement circumstances.

This Staff Audit Practice Alert highlights potential implications for auditor and interim review reports arising from the current environment, including:

- Modifications to the auditor's opinion due to material misstatement of the financial statements or an inability to obtain sufficient appropriate audit evidence;
- Material uncertainty relating to going concern;
- Inclusion of key audit matters (KAMs) and/or emphasis of matter (EOM) paragraphs; and
- Reporting implications for interim review engagements, when the auditor of the financial statements is also performing the interim review.

Preparation of the Financial Statements and the Auditor's Report Thereon

Management's Responsibilities for the Preparation of the Financial Statements

Management is responsible for preparing the financial statements in accordance with the applicable financial reporting framework. Management must make judgments and develop estimates regarding amounts and disclosures within the

1 ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

financial statements. This includes whether the going concern basis of accounting remains appropriate in preparing the financial statements.

In the current circumstances, disclosures take on ever increasing importance. Users expect increased transparency through disclosures relating to the material effects of the COVID-19 pandemic. These disclosures could address the impact of financial market volatility, deteriorating credit or liquidity concerns, government interventions (such as government grants), and changes arising from reductions in production and restructuring, among other matters.

Obtaining Sufficient Appropriate Audit Evidence to Support the Auditor's Opinion

The COVID-19 pandemic has tested the way auditors obtain sufficient and appropriate audit evidence. Access issues (e.g., caused by travel restrictions and remote working arrangements), and the availability of client staff are common challenges. For example, auditors may no longer be able to attend physical inventory counts; group auditors may have challenges accessing workpapers of component auditors; or auditors may not be able to understand and test internal controls due to changes in how entities are operating. In some cases, auditors may be able to undertake alternative procedures to be able to obtain sufficient appropriate audit evidence, but in other cases this may not be possible.

When the auditor is unable to obtain sufficient appropriate audit evidence necessary to provide a basis for forming an opinion on the financial statements, the auditor will need to consider the impact on the auditor's report, including whether a modification to the opinion is needed.

Under the ISAs, obtaining sufficient appropriate audit evidence applies equally to disclosures. Further, for financial statements prepared in accordance with a fair presentation framework, auditors are required to consider the overall presentation of the financial statements and whether the financial statements, including disclosures, represent the underlying transactions and events in a manner that achieves fair presentation. If the disclosures do not adequately describe the material effects of the COVID-19 pandemic (e.g., relating to significant assumptions for accounting estimates, financial risk management or significant judgements about going concern), consideration of the possible effect on the auditor's report is required. This may include whether a modification to the opinion is needed.

The Auditor's Report

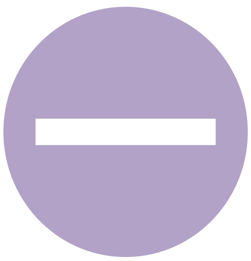
The auditor plans and performs the audit to obtain reasonable assurance that the financial statements as a whole, including disclosures, are free from material misstatement. The auditor expresses an opinion on the financial statements in the auditor's report, based on the audit evidence obtained.

The following ISAs are relevant to auditor reporting:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, sets out the requirements relating to the auditor forming an opinion and the content of the auditor's report. ISA 700 (Revised) also provides illustrative example reports for situations when no modifications are needed to the opinion or the auditor's report.
- ISA 701, *Communicating Key Audit Matters In The Independent Auditor's Report*, deals with the auditor's responsibility to communicate those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of listed entities or other entities for which law or regulation requires communication of key audit matters. In other circumstances, auditors may also decide to communicate key audit matters.

- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, sets out the requirements for modifying the auditor's opinion when the financial statements are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence. ISA 705 (Revised) also provides illustrative example reports with modifications to the audit opinion.
- ISA 706 (Revised), *Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report*, explains the circumstances when such paragraphs may be necessary and provides illustrative examples of such paragraphs.

The remainder of this Staff Alert explains the various possible ways in which the auditor's report may be modified when issues related to the COVID-19 pandemic's impact are relevant to the preparation of the entity's financial statements.



Modifications to the Auditor's Opinion

Impacts of the COVID-19 pandemic may amplify conditions that give rise to modifications, which arise from circumstances where the auditor has:

- Determined that there are, in accordance with ISA 450, uncorrected misstatements that are material, individually or in aggregate, to the financial statements as a whole;[2] or
- Concluded, in accordance with ISA 330, that they are unable to obtain sufficient appropriate audit evidence.[3]

In the current circumstances, examples of when modifications to the auditor's opinion may arise because of *material misstatement of the financial statements* include:

- The **appropriateness or adequacy of disclosures** in the financial statements. For example, when the financial statements do not include all of the disclosures required to appropriately describe the effects of current circumstances on the entity resulting from the COVID-19 pandemic, including sufficient description of relevant risks, estimates and judgments applied for that entity.
- The proper **application of the entity's accounting policies**. For example, inappropriate recognition and measurement, in accordance with an entity's accounting policies, of assets and liabilities.

Modifications to the auditor's opinion also may arise as a result of the *inability to obtain sufficient appropriate audit evidence*, including circumstances beyond the control of the entity or circumstances relating to the nature or timing of the auditor's work. For example, access to the entity's accounting records or the ability to obtain audit evidence may be restricted due to government imposed lockdowns and travel bans during the COVID-19 pandemic (e.g., access to information or people, which may relate to the entity or its components, including associates and joint ventures, etc.).

The types of modifications to the auditor's opinion are set out in ISA 705 (Revised),[4] and explain the circumstances for each (i.e. a qualified opinion, adverse opinion and a disclaimer of opinion) based on the auditor's judgment in the particular situation.

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2 ISA 450, *Evaluation of Misstatements Identified During the Audit,* paragraph 11 and ISA 705 (Revised), paragraph 6(a)

3 ISA 330, *The Auditor's Responses to Assessed Risks,* paragraphs 26-27 and ISA 705 (Revised), paragraph 6(b)

4 ISA 705 (Revised), paragraphs 7–10

The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

Nature of Matter Giving Rise to the Modification	***Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements***	
	Material but Not Pervasive	**Material and Pervasive**
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

ISA 705 (Revised)[5], set out specific elements required in the auditor's report when the auditor modifies the opinion on the financial statements.

Communication with Those Charged with Governance

Broadly, when the auditor expects to modify the opinion in the auditor's report, the circumstances that led to the expected modification and the wording of the modification are required to be communicated with those charged with governance.[6] Additional communication may also be required with those charged with governance in certain circumstances where there is a modification of the auditor's opinion (e.g., there is a material misstatement due to non-disclosure).[7]

Material Uncertainty Relating to Going Concern

The current uncertain financial, operating and other conditions that are arising as a result of the COVID-19 pandemic will likely result in heightened risk. Consequently, there may be a need for more persuasive audit evidence in relation to management's assessment of the entity's ability to continue as a going concern and related disclosures, as applicable, in the financial statements. The auditor's conclusions relating to going concern, in light of the facts and circumstances of the entity, determine the possible impact (if any) on the auditor's report.

ISA 570 (Revised), *Going Concern* sets out the auditor's responsibilities in relation to going concern and the implications for the auditor's report. The Appendix to ISA 570 (Revised) provides illustrative examples of auditor's reports relating to going concern.

ISA 570 (Revised) requires the auditor to evaluate whether sufficient appropriate audit evidence has been obtained with regard to the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.[8] The work effort for obtaining sufficient appropriate audit evidence to support the auditor's conclusion, and concluding on the appropriateness of management's use

5 ISA 705 (Revised), paragraphs 20–29

6 ISA 705 (Revised), paragraph 30

7 ISA 705 (Revised), paragraph 23(a)

8 ISA 570 (Revised), paragraphs 17–20

of the going concern basis of accounting in accordance with ISA 570 (Revised), are further explained in the IAASB Staff Audit Practice Alert, *Going Concern in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19*. Although that Staff Alert includes a section that addresses potential implications for the auditor's report, this Staff Alert provides additional detail and expands more on situations where the audit opinion is modified (i.e., qualified or adverse opinions, or disclaimer of opinions).

When Changes are Needed to the Auditor's Report Relating to Going Concern

When the auditor concludes that management's use of the going concern basis of accounting is appropriate, but a material uncertainty exists, the auditor determines whether the financial statements adequately disclose the principal events and conditions, management's plans to deal with those events or conditions and whether, under these conditions, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business.

The implications for the auditor's report are summarized in the table below:

Implications for the Auditor's Report[9]		
Auditor's Conclusion	**Reporting Implication**	**Circumstance that Results in Modification**
Use of going concern basis of accounting is inappropriate	**Adverse opinion**	When the financial statements have been prepared by management using the going concern basis of accounting but, in the auditor's judgment, that basis is no longer appropriate.
Use of going concern basis of accounting is appropriate BUT a material uncertainty exists	**Unmodified opinion** **+** **Separate Material Uncertainty Paragraph**[10]	When adequate disclosure about the material uncertainty is made in the financial statements, the auditor's report includes a separate section under the heading "Material Uncertainty Related to Going Concern" to: • Draw attention to the relevant disclosure in the financial statements. • State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

9 ISA 570 (Revised), paragraphs 21–24

10 ISA 570 (Revised), paragraph 22

Implications for the Auditor's Report[9]		
Auditor's Conclusion	**Reporting Implication**	**Circumstance that Results in Modification**
	Qualified or adverse opinion	When adequate disclosure about the material uncertainty is not made in the financial statements, the auditor: • Expresses a qualified or adverse opinion, as appropriate, in accordance with ISA 705 (Revised); and • In the "Basis for Qualified (Adverse) Opinion" section of the auditor's report, states that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
	Disclaimer of opinion	May be used when there are situations (in extremely rare cases) involving multiple uncertainties that are significant to the financial statements as a whole.[11]
Unable to conclude because management is unwilling to make or extend its assessment	**Qualified or disclaimer of opinion**	When management is unwilling to make, or extend, its assessment of the entity's ability to continue as a going concern, when requested to do so by the auditor, the auditor considers the implications for the auditor's report,[12] since the auditor may not be able to conclude regarding management's use of the going concern basis of accounting. In accordance with ISA 705 (Revised), if the possible effects on the financial statements of such limitation on the scope of the audit is material, a qualified or disclaimer of opinion may be appropriate.
Going concern basis is inappropriate AND financial statements are prepared on another acceptable basis of accounting	**Unmodified opinion**	When the going concern basis of accounting is not appropriate and management prepares the financial statements on another basis (e.g., a liquidation basis), and: • The auditor determines that the other basis of accounting is acceptable in the circumstances; and

11 ISA 570 (Revised), paragraph A33

12 ISA 570 (Revised), paragraph 24

Implications for the Auditor's Report[9]		
Auditor's Conclusion	**Reporting Implication**	**Circumstance that Results in Modification**
		• There is adequate disclosure about the basis of accounting on which the financial statements are prepared. In these circumstances, the auditor issues an unmodified opinion but may consider it appropriate or necessary to include an EOM paragraph in the auditor's report, in accordance with ISA 706 (Revised), to draw the user's attention to the alternative basis of accounting and the reasons for its use.[13]

Even when no material uncertainty exists, ISA 570 (Revised)[14] requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In addition, when the financial statements are prepared in accordance with a fair presentation framework, additional disclosures beyond those required by the applicable financial reporting framework may be provided by management (or the auditor may determine that such additional disclosures are necessary) to achieve fair presentation.

In these circumstances, and where the auditor does not communicate such matter(s) as a key audit matter in the auditor's report in accordance with ISA 701, the auditor may wish to include an emphasis of matter paragraph in the auditor's report in accordance with ISA 706 (Revised) to draw the users' attention to such disclosure(s).

Communication with Those Charged with Governance

ISA 570 (Revised),[15] sets out the requirements for communication with those charged with governance when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern.

Key Audit Matters (KAMs)

When *ISA 701, Communicating Key Audit Matters In The Independent Auditor's Report* applies, additional focus may be needed in determining the key audit matters reported in the auditor's report because of the changing circumstances and difficulties arising due to the COVID-19 pandemic. For example, the effect on the entity's financial position and performance arising from the impact of COVID-19 could significantly affect the audit procedures undertaken, particularly when there were significant management judgments.

13 ISA 570 (Revised), paragraph A27

14 ISA 570 (Revised), paragraph 20

15 ISA 570 (Revised), paragraph 25

In the current environment, the auditor's determination of the matters that require significant auditor attention may, for example, be affected by the following:

- **Difficulty obtaining sufficient appropriate audit evidence—**COVID-19 related conditions may cause difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, such as valuing financial instruments or calculating other fair values.
- **Specific events or transactions**—that have a significant effect on the financial statements (i.e., developments affecting financial statement items in a different way, or new items or transactions, or unusual or once-off transactions (e.g., new impairments of non-financial or financial assets or recoverability of deferred tax assets)).

The auditor considers such matters in accordance with ISA 701[16] in determining key audit matters.

When it has been determined that there is a key audit matter(s) that needs to be communicated in the auditor's report, the auditor does so in a separate section of the auditor's report under the heading "Key Audit Matters."[17] The description of each key audit matter:

- Includes a reference to the related disclosure(s), if any, in the financial statements; and
- Addresses the following aspects related to the auditor's professional judgment about the matter:
  - Why the matter was considered to be one of most significance in the audit of the current period and therefore determined to be a key audit matter; and
  - How the matter was addressed in the audit.

Referring to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements. In addition, the auditor may draw attention to key aspects of such disclosure(s), which may assist intended users' understanding of why the matter is a key audit matter.

Matters that Are Not Presented as Key Audit Matters

ISA 701[18] sets out that a matter giving rise to a modified opinion in accordance with ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised), are by their nature, key audit matters. However, in such circumstances, these matters are not described in the Key Audit Matters section of the auditor's report; rather, the auditor includes a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section.

The application material to ISA 701,[19] sets out an illustration where the auditor has no other key audit matters to communicate in such situations.

Key Audit Matters

[*Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section*,] We have determined that there are no [other] key audit matters to communicate in our report.

16 ISA 701, paragraphs 9–10

17 ISA 701, paragraph 13

18 ISA 701, paragraph 15

19 ISA 701, paragraph A58

Communication with Those Charged with Governance

ISA 701[20] requires the auditor to communicate with those charged with governance the matters the auditor has determined to be key audit matters or, if applicable, the auditor's determination that there are no key audit matters to communicate in the auditor's report.

Emphasis of Matter Paragraphs

The auditor may consider it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In these circumstances, ISA 706 (Revised) requires that the auditor include an EOM paragraph within a separate section of the auditor's report with an appropriate heading.

To draw attention to a matter presented or disclosed

The EOM paragraph includes a clear reference to the matter being emphasized, where the relevant disclosures that fully describe the matter can be found in the financial statements, and indicates that the auditor's opinion is not modified in respect of the matter emphasized.

As has been referred to earlier, adequate and robust disclosures in the financial statements take on ever increasing importance due to the effects of the COVID-19 pandemic. Notwithstanding that auditors may look to EOM paragraphs to draw attention to certain disclosures, auditors should remain mindful that widespread use of EOM paragraphs may diminish the effectiveness of the auditor's communication about such matters.[21]

When ISA 706 (Revised) Should Not Be Used

In accordance with ISA 706 (Revised),[22] the inclusion of an EOM paragraph in the auditor's report would not be appropriate when:

- ISA 701 applies, and the matter has been determined to be a key audit matter to be communicated in the auditor's report (i.e., such matter is included in the separate "Key Audit Matters" section of the auditor's report).
- The matter results in the auditor modifying the opinion in accordance with ISA 705 (Revised) (i.e., if the auditor determines that a qualified or adverse opinion or a disclaimer of opinion is appropriate in the circumstances of a specific audit engagement).

Not used when:

-Already communicated as a KAM

-Opinion has been modified

In addition, an EOM paragraph is not a substitute for appropriate disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise

20 ISA 701, paragraph 17

21 ISA 706 (Revised), paragraph A6. In addition, paragraphs A1 to A5 provide application material that addresses the relationship between EOM paragraphs and Key Audit Matters, and that describes circumstances in which an EOM paragraph may be necessary.

22 ISA 706 (Revised), paragraph 8

necessary, to achieve fair presentation. It also is not an alternative to reporting in accordance with ISA 570 (Revised) when the auditor has concluded that a material uncertainty related to going concern exists.

Interim Review Reports

The effects of the COVID-19 pandemic also will need to be considered by management when preparing and issuing interim financial information. The entity's external auditor would also consider the impact of such effects when reviewing the entity's interim financial information in accordance with ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

For the auditor, the reporting implications are different because, for interim review engagements, the auditor expresses a review conclusion in accordance with ISRE 2410. Unlike an audit, a review is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement (i.e., the auditor obtains only limited assurance from the procedures performed).

The IAASB Staff Audit Practice Alert, *Review Engagements on Interim Financial Reporting in the Current Evolving Environment Due to COVID-19*,[23] addresses the auditor's procedures for a review of interim financial information in accordance with ISRE 2410, including concluding based on the evidence obtained. The following highlights reporting considerations relating to reporting on going concern and other modifications to the auditor's review report.

Going Concern

ISRE 2410[24] sets out requirements and explanatory material when a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern comes to the auditor's attention. Under these conditions, ISRE 2410 requires the auditor to:

- Include an EOM paragraph in the review report when adequate disclosure is made in the interim financial information; or
- Express a qualified or adverse conclusion, as appropriate, when the material uncertainty is not adequately disclosed in the interim financial information, (depending on the materiality and pervasiveness of the impact on the interim financial information).

Other Modifications to the Review Report

ISRE 2410 also addresses situations where a modification to the review report may be appropriate based on the evidence obtained or considering a limitation on the scope of the review – such modifications are ordinarily presented by adding an explanatory paragraph to the review report and appropriately modifying the conclusion:

- *Departure from the applicable financial reporting framework*—If a matter comes to the auditor's attention that causes the auditor to believe that the interim financial information is, or may be, materially affected by a departure from the applicable financial reporting framework (i.e., either incorrect interim financial information or inadequate disclosures), and management does not correct

[23] The Staff Alert is expected to be published early June 2020

[24] ISRE 2410, paragraphs 56–59

the interim financial information or add the necessary disclosures, the auditor modifies the review report:

- A qualified conclusion is expressed, and an explanatory paragraph is added to the review report (i.e., explaining the basis for the qualified review report). Illustrative review reports with a qualified conclusion are set out in Appendix 5 of ISRE 2410.
- An adverse conclusion is expressed when the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information.[25] Illustrative review reports with a qualified conclusion are set out in Appendix 7 of ISRE 2410.

- *Limitation on scope*—If there is a limitation on the scope of the review (i.e., the limitation on scope ordinarily prevents the auditor from completing the review), the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. The auditor also considers whether it is appropriate to issue a report, and if a report is to be issued, what the impact on the auditor's conclusion is. Depending on the facts and circumstances of each entity, a limitation on scope may be more readily expected in the current COVID-19 environment, and may arise from:
  - A limitation on scope imposed by management.
  - Other circumstances.

  ISRE 2410[26] provides further detail regarding the auditor disclaiming a conclusion or expressing a qualified conclusion owing to a limitation on scope.

- *Other modifications*—the auditor is required to consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than related to going concern) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.[27]

[25] ISRE 2410, paragraphs 45–47

[26] ISRE 2410, paragraphs 48–54

[27] ISRE 2410, paragraph 60

STAFF GUIDANCE

PCAOB
Public Company Accounting Oversight Board

Implementation of Critical Audit Matters: A Deeper Dive on the Communication of CAMs

Insights for Auditors

Overview

Critical audit matters (CAMs) are intended to enhance the auditor's report to provide audit-specific information that is meaningful to investors and other financial statement users. The purpose of CAMs is to shed light on certain matters in an audit that involved especially challenging, subjective, or complex auditor judgment.

In its order approving the PCAOB's standard that included the requirement to communicate CAMs, the SEC stated that this new aspect of the auditor's report "will add to the total mix of information available to investors by eliciting more information about the audit itself — information that is uniquely within the perspective of the auditor, and thus, not otherwise available to investors and other financial statement users."

This PCAOB staff guidance focuses on questions that may arise when the auditor is communicating CAMs under AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. Additional resources on CAMs can be found on the PCAOB's new auditor's report implementation web page.

What's included?

✓ Overview
✓ Communicating CAMs
✓ Staff FAQs

Communicating CAMs

For each CAM communicated in the auditor's report, the auditor is required to:

- Identify the CAM;
- Describe the principal considerations that led the auditor to determine that the matter is a CAM;
- Describe how the CAM was addressed in the audit; and
- Refer to the relevant financial statement accounts or disclosures that relate to the CAM.

AS 3101 includes four elements that the auditor can use, individually or in combination, to describe how the CAM was addressed in the audit: (1) the auditor's response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter.

The description of how the CAM was addressed in the audit provides investors and other financial statement users with additional information about the audit. The intent

What, why, how, and where of CAMs

The four aspects of the CAM communication requirements can be thought of as the what, why, how, and where of CAMs.

- What: Identification
- Why: Principal considerations
- How: How the matter was addressed, and
- Where: Reference to financial statement accounts or disclosures

This guidance was prepared by PCAOB staff to help firms when implementing CAM requirements. This staff guidance document sets forth the staff's views on issues related to the implementation of the rules and standards of the PCAOB. It does not constitute rules of the Board, nor has it been approved by the Board. It supplements PCAOB Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards* (June 1, 2017).

is to provide a summary that is useful to investors, and not to detail every aspect of the auditor's response or approach.

Language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the CAMs or the auditor's opinion on the financial statements is not appropriate and may not be used. The language used to communicate a CAM should not imply that the auditor is providing a separate opinion on the CAM or on the accounts or disclosures to which the CAM relates.

The auditor is not expected to provide information about the company that has not been made publicly available by the company unless such information is necessary to describe the principal considerations that led the auditor to determine that a matter is a CAM or how the matter was addressed in the audit.

Required CAM introductory language

- Provides the CAM definition
- Indicates that CAMs do not alter the auditor's opinion
- Indicates that the auditor is not providing a separate opinion on the CAMs
- Provides the period(s) to which CAMs relate

Required language if the auditor determines no CAMs

- Provides the CAM definition
- Indicates that there are no CAMs

Staff FAQs

1. How should auditors describe the principal considerations that led them to determine a matter is a CAM?

The description of the principal considerations is meant to provide a clear, concise, and understandable discussion of why the matter is a CAM, including the especially challenging, subjective, or complex auditor judgments made in the context of the particular audit. The "why" is intended to provide information appropriately tailored to the audit and the matter that helps financial statement users understand the aspects of the audit that stood out from the auditor's perspective.

For example, in developing a description of the principal considerations that led the auditor to determine that the goodwill impairment assessment for a reporting unit is a CAM, the auditor could address questions like:

- What type of valuation technique is used? Is the valuation technique especially complex and, if so, in what ways? What factors specific to the company and the audit contribute to the complexity?
- Is the valuation based on assumptions that are especially subjective (e.g., revenue projections where there is a lack of operating history, new product lines, potential changes in the business environment, or other potential changes from prior periods)?
- Are there underlying factors related to the reporting unit's operations that contributed to the need for especially challenging, subjective, or complex auditor judgment in auditing the impairment analysis, such as prevailing or expected market conditions, changes in product demand, or new product regulations?
- What was the nature and extent of specialized skill or knowledge needed in addressing the CAM? If using a specialist, what was the specialist's area of expertise and for which aspects of auditing the impairment analysis was the specialist used?

2. If describing audit procedures as part of communicating how a CAM was addressed in the audit, what considerations apply?

If the auditor chooses to describe audit procedures as part of communicating how a CAM was addressed in the audit, it is expected that the procedures described would be specific to the CAM and to the audit. General statements about procedures that would likely be performed in most audits or in relation to most significant areas of the audit, such as "testing the operating effectiveness of the company's controls" in the case of an integrated audit, typically do not, by themselves, provide useful information to a reader about how the auditor addressed the particular CAM.

Financial statement users will likely find a CAM communication more useful if the procedures described are linked to the principal considerations that led the matter to be identified as a CAM. For example:

- If a matter was determined to be a CAM because of the degree of auditor judgment involved in evaluating significant assumptions made by management in developing a particular estimate, the description of how the matter was addressed may focus more directly on the procedures the auditor performed to evaluate those assumptions.
- For a CAM related to an acquisition that required auditor judgment in relation to the valuation of assets acquired and liabilities assumed, if control testing is described, the description would focus on the testing of controls addressing the risks related to the valuation assertion (e.g., controls over the assumptions used to value acquired intangible assets or controls over the selection of a discount rate for a discounted cash flow analysis).
- In situations where the use of a specialist was an aspect of how a CAM was addressed, the description could include information about the nature and extent of the specialist's involvement in performing the audit procedures.

3. If describing the outcome of audit procedures or key observations with respect to a matter, what considerations apply?

In describing how the CAM was addressed in the audit, the auditor may choose to include findings as an indication of the outcome of audit procedures or as key observations about a matter. However, the language used to describe how the CAM was addressed in the audit should not imply that the auditor is providing a separate opinion on the CAM or on the accounts or disclosures to which it relates. For example, a CAM should not indicate that the auditor concluded that the financial statement accounts and/or disclosures related to the CAM are fairly presented in accordance with the applicable financial reporting framework.

4. How do CAM communications relate to company disclosures and other information the company has made publicly available?

While CAMs, by definition, relate to the company's financial statement accounts and disclosures, a CAM communication also includes the principal considerations that led the auditor to determine a matter was a CAM and how the CAM was addressed in the audit (i.e., the "why" and "how" of the CAM). Accordingly, CAM communications will not simply duplicate disclosures made by the company.

When communicating CAMs, the auditor is not expected to provide information about the company that has not been made publicly available by the company, unless such information is necessary to describe the "why" and "how" of the CAM. In that context, information a company has made publicly available includes all means of public

CAM communication tips

- Present and summarize information in a way that investors will find informative
- Avoid stating that a matter required especially challenging, subjective, or complex auditor judgment without any indication as to why
- Reflect information specific to the circumstances
- Avoid the use of boilerplate language and overly technical accounting and auditing terms
- After drafting the CAM, consider whether the description is so generic that it could be applied to any audit of a company within that industry—if so, consider revising

communication, whether within or outside the financial statements, including SEC filings, press releases, and other public statements.

5. If a CAM is recurring, how should auditors apply the CAM communication requirements?

The auditor determines and communicates CAMs every year in connection with the current period audit. It is possible that a CAM identified in one or more prior periods may also continue to be a CAM in the current period. A CAM may be determined based on the same or different considerations, and the way a CAM is addressed in the audit may be similar or may vary. Regardless of whether a matter was previously determined to be a CAM, the auditor would consider the specific facts and circumstances that existed during the audit of the current period's financial statements, and tailor the communication of the CAM as necessary.

6. Is there a specific order in which CAMs should appear in the CAM section of the auditor's report?

AS 3101 does not specify any particular order of presentation for matters included within the CAM section of the auditor's report. The auditor may consider ordering the presentation of CAMs based on the auditor's judgment of relative importance, an order that corresponds to the presentation of the company's financial statements, or any other order.

7. How do the CAM requirements apply to a dual-dated auditor's report?

If the auditor's report is dual-dated, the new information for which the auditor's report is dual-dated may give rise to one or more additional CAMs or may necessitate modifications to previously communicated CAMs. For example, if an auditor's report is dual-dated because of a subsequent event, the report would include, as applicable, any new CAMs or any modifications to previously issued CAMs arising from the impact of the subsequent event on the audit.

Subsequent Events in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19

This publication has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to subsequent events in accordance with the International Standards on Auditing™ (ISA™).

This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to subsequent events.

The uncertainty and challenges caused by the COVID-19 pandemic, including the likelihood of unplanned events occurring at any time, the uncertain duration of this current environment, and potential shifting timelines impact many areas within the audit. At the end of each reporting period, entities will be carefully evaluating information that becomes available after the reporting date but before the issuance of the financial statements. Accordingly, auditors will likely require greater focus on events occurring between the date of the financial statements and the date of the auditor's report (i.e., subsequent events[1]) and the effect, if any, of such on the entity's financial statements (see also Relevant Definitions and Descriptions on the last page for additional context).

What are subsequent events and how should they be reflected in the financial statements?

ISA 560, *Subsequent Events*, sets out the auditor's responsibilities with respect to subsequent events.

There are generally two types of **subsequent events**:

a) Those that provide evidence of conditions that existed *at the date* of the financial statements.

b) Those that provide evidence of conditions that arose *after the date* of the financial statements.[2]

As described in ISA 560, many financial reporting frameworks refer to events that occur after the date of the financial statements as subsequent events. For example, International Accounting Standard (IAS) 10, *Events After the Reporting Period*, details the treatment in the financial statements of transactions and events that occur between the date of the financial statements and the date when the financial statements are authorized for issue.

[1] ISA 560, *Subsequent Events*, paragraph 5(e)

[2] ISA 560, paragraph 2

Management is responsible for making adjustments or preparing relevant other disclosures in the financial statements, as appropriate, with regard to subsequent events in accordance with the applicable financial reporting framework. The following definitions and resulting treatment in the financial statements are described in IAS 10.[3]

Type of Subsequent Event	Definition and Impact
Adjusting events	Events that provide evidence of conditions that existed at the end of the reporting period (i.e., at the date of the financial statements). **Impact**: **Adjust** the amounts recognized in the financial statements.
Non-adjusting events	Events that are indicative of conditions that arose after the reporting period (i.e., after the date of the financial statements). **Impact**: **Disclose** the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

Management's Considerations When Assessing Events After the Date of the Financial Statements

In complying with the applicable financial reporting framework, management exercises judgment in determining the financial statement impact of any subsequent events related to the COVID-19 pandemic, taking into consideration the date of the financial statements, the facts and circumstances of the entity, and the conditions that existed at, or arose after, that date. Consider, for example, the following illustrative scenario:

** World Health Organization*

In this scenario, the date of the financial statements is prior to the WHO declaration of a public health emergency, the WHO declaration of the pandemic, and the resulting decline in the performance of global markets, but after the first reported cases in Wuhan, China. In determining whether relevant conditions existed at the date of the financial statements, management would take into account their particular circumstances, for example, their location and the location of their operations (e.g., whether the company had significant operations in China).

Different considerations would apply if the date of the financial statements is March 31, 2020 or June 30, 2020. As the impacts of the COVID-19 outbreak continue to evolve, capturing events that relate specifically to conditions that existed or exist at the date of the financial statements, or after the reporting date, will require careful assessment.

[3] IAS 10, paragraphs 3, 8 and 10

Further guidance with regard to management's responsibilities in relation to subsequent events in the current environment can be found in the International Federation of Accountants' (IFAC) editorial "*The Financial Reporting Implications of COVID-19*".[4] Some jurisdictions have also issued guidance for their specific local circumstances related to whether events arising from the COVID-19 pandemic are adjusting or non-adjusting (disclosable) events, which may also be helpful for others to refer to.

How are the auditor's responsibilities in relation to obtaining sufficient appropriate audit evidence about subsequent events impacted by the COVID-19 pandemic?

Auditors are required to perform procedures designed to obtain sufficient appropriate audit evidence that all events requiring adjustment of, or disclosure in, the financial statements, occurring between the date of the financial statements and the auditor's report, have been identified and appropriately reflected in the financial statement in accordance with the applicable financial reporting framework (see ISA 560, paragraphs 6–8).

In undertaking work to be responsive to the auditor's risk assessment pertaining to subsequent events, including reasons related to the impact of the COVID-19 pandemic, the auditor considers management's adjustments or disclosures, including the timelines used to distinguish between adjusting and non-adjusting events. In addition, this includes the impact of the changes in the environment on the recognition and measurement of account balances and transactions in the financial statements (if adjusting), or other specific disclosures (if non-adjusting).

Performing Procedures to the Date of the Auditor's Report

In some jurisdictions, extensions have been granted for filing financial reports. In these circumstances, while auditors may have already performed subsequent event procedures through the initial planned auditor report date, auditors will be required to undertake procedures to cover the longer period. It is important in the constantly evolving current environment that the audit evidence obtained regarding subsequent events covers the entire period to the date of the auditor's report. For example, in the illustrative scenario presented above, audit procedures on subsequent events should extend through March 31, 2020.

Examples of Events and Conditions that May be Relevant in the Current Environment

The following are examples of events or conditions that may be affected by, or exist as a result of, the COVID-19 pandemic, and which may be relevant for the auditor in determining whether subsequent events have occurred and, if applicable, have been appropriately reflected in the financial statements (also see ISA 560, paragraphs A7–A10):

[4] https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/financial-reporting-implications-covid-19

- New commitments, borrowings or guarantees that have been entered into as a result of the pandemic
- Recent or planned sales or acquisitions of assets as a result of the pandemic
- Increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate that has been made or is planned
- Probability of meeting performance vesting conditions under share-based payment arrangements and the appropriate accounting for modifications or settlements of such arrangements
- Relief or economic stimulus payments provided by the government in the form of loans or grants
- Any developments regarding contingencies (for example, new contingent liabilities or circumstances affecting the evaluation of existing contingent liabilities, the ability to meet agreed-on performance targets for contingent consideration in business combination arrangements, etc)
- Any unusual accounting adjustments that have been made or are contemplated, such as additional or revised closing entries, or events that require non-standard journal entries
- Any events that will bring into question the appropriateness of accounting policies used in the financial statements (e.g. events call into question the validity of the going concern assumption)
- Any events that are relevant to the measurement of estimates or provisions made in the financial statements. Examples include derivative and hedging considerations (e.g. where a forecast transaction is no longer highly probable), insurance claims (e.g. whether it is virtually certain that amounts are receivable under business interruption and/or other insurance and the potential disclosure of contingent assets), rebate arrangements with customers or suppliers, variable consideration, commission accruals, etc)
- Any events that are relevant to the recoverability of assets
- Modification of existing contractual arrangements (e.g. reduction or deferral of lease payments granted by a lessor to a lessee, modifications to debt terms, etc)
- Tax considerations (e.g. impact of reduced flow of goods and services on transfer pricing agreements; recoverability of deferred tax assets)
- Employee termination benefits resulting from a workforce reduction (e.g. as a result of closure or reorganization of operations that occurred after the reporting date)

The Exercise of Professional Skepticism

Management's determination and treatment of adjusting or non-adjusting events, as applicable, are likely to be more challenging owing to the impact of COVID-19. Correspondingly, there may be a need for the auditor to design and perform enhanced or additional procedures.

The uncertainties and challenges associated with COVID-19, taking into account the facts and circumstances of the entity, are more likely to result in significant management judgments, requiring significant auditor judgments, which requires the auditor to exercise professional skepticism in undertaking work on subsequent events. Applying professional skepticism in this regard means questioning and considering the sufficiency and appropriateness of audit evidence that all material subsequent events (i.e., those requiring adjustment of, or disclosure in the financial statements) have been identified and are appropriately reflected in the financial statements in the light of the circumstances.

Written Representations

The auditor is required by ISA 560, paragraph 9, to request a written representation that all events occurring subsequent to the date of the financial statements, and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed.

Written representations are required to be dated as near as practicable to the date of the auditor's report, but not after that date.[5] The COVID-19 pandemic may be a contributing factor to a delay in the approval of financial statements (as stated earlier, some jurisdictions have allowed additional time or extensions for filing financial reports). In such cases it is important that written representations cover the additional period to the date of the auditor's report, or as close as practicable, including any further changes that may need to be incorporated.

Also, if management has undertaken their work in relation to identifying and accounting for adjusting or non-adjusting events, as applicable, to a period that ends earlier than the extended period, the auditor may request management to extend their considerations in light of any changes during the extended period.

The Importance of Communication with Those Charged with Governance

The COVID-19 pandemic has resulted in various challenging and complex areas related to financial reporting. Those charged with governance will likely have increasingly important responsibilities in the entity's financial reporting and other governance processes. For example, they may need to ensure that the entity adapts its design and maintenance of appropriate controls with regard to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The auditor's ongoing and regular communication with those charged with governance, particularly in the period past the date of the financial statements, may assist with the auditor's understanding of the changes being made to respond to the evolving environment and may help the auditor in assessing what procedures they need to undertake to gather sufficient appropriate evidence.

Are there required audit procedures if the events of the COVID-19 pandemic became known to the auditor after the date of the auditor's report?

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report (either before or after the date the financial statements are issued), unless a fact becomes known to the auditor that, had it been known at the date of the auditor's report, may have caused the auditor to amend their report.

For instance, in the illustrative scenario presented earlier, if significant COVID-19 events became known to the auditor on April 8, 2020 that, had they been known at March 31, 2020 (the date of the auditor's report), may have resulted in an amendment to the auditor's report, additional procedures may be required.

ISA 560, paragraphs 10 through 17, addresses the auditor's responsibilities when facts become known to the auditor after the date of the auditor's report.

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[5] ISA 580, *Written Representations*, paragraph 14

How do the results of the auditor's procedures on subsequent events impact the auditor's report?

If, based on the results of the audit procedures performed, the auditor determines that the financial statements are materially misstated, or is unable to obtain sufficient appropriate audit evidence to determine whether the financial statements are materially misstated, a modification to the opinion in the auditor's report is required in accordance with ISA 705 (Revised).[6]

If the auditor is able to obtain sufficient appropriate audit evidence about subsequent events as required in terms of ISA 560, they may or may not consider it appropriate to identify the subsequent event as a Key Audit Matter per ISA 701,[7] or they may or may not determine it is necessary to draw users' attention to the subsequent event through inclusion of an Emphasis of Matter paragraph or Other Matter paragraph pursuant to ISA 706.[8] Auditor reporting is addressed more generally in a separate Staff Audit Practice Alert: *Auditor Reporting in the Current Evolving Environment - Audit Considerations Due to the Impact of COVID-19*.[9]

Relevant Definitions and Descriptions[10]

Various dates are referenced throughout this publication. Definitions or descriptions that help provide context are set out below:

- ***Date of the financial statements*** – Date of the end of the latest period covered by the financial statements.
- ***Date of approval of the financial statements*** – Date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.
- ***Date of the auditor's report*** – Date the auditor dates the report on the financial statements. This date informs the users of the auditor's report that the auditor has considered the effects of events and transactions of which the auditor became aware and that occurred up to that date.[11]
- ***Date the financial statements are issued*** – Date that the auditor's report and audited financial statements are made available to third parties.

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6 ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report,* paragraph 6

7 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 9-10

8 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-11

9 To be published May 2020

10 ISA 560, paragraph 5(a)-(d)

11 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph A66

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

STRATEGY FOR 2020–2023

IAASB International Auditing and Assurance Standards Board

The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality international standards which are generally accepted worldwide.

The IAASB believes that high-quality, robust and operable international standards contribute to enhanced engagement quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession. The IAASB sets its standards in the public interest with advice from the IAASB Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board.

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CHAIR'S FOREWORD

The IAASB plays a meaningful role in the financial reporting ecosystem and wants to remain relevant as an international standard-setter. Therefore, we are committed to operating with a high degree of accountability to our stakeholders. We also want to demonstrate our responsiveness in an evolving world.

This is my first strategy as chair, and a key theme of my first term will be acting with urgency and purpose. While proud of our significant progress to advance high quality audit and assurance standards, the IAASB will not be complacent. The challenges facing the profession and the standards that govern them are real. Some of these challenges go to the core of what society expects of the profession and the type of standards that are needed. This strategy seeks to address these challenges in a highly responsive manner.

As a priority, we will complete on a timely basis our substantial in-progress projects in order to set a strong foundation for our future efforts. These include enhancements to some of our more significant International Standards on Auditing (ISAs) and quality control standards. These enhancements are key to high-quality audits and other engagements.

Our strategy also prioritizes addressing key emerging public interest challenges. The IAASB's attention will focus on:

- The impact of evolving technology.
- Demands for reporting to meet the changing needs of stakeholders (including demands for the IAASB to consider non-financial reporting), and
- Changing expectations for the audit in relation to matters such as fraud and going concern.

I expect those topics will require more immediate action and relative attention in the coming years.

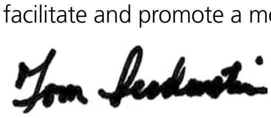
We will face challenging prioritization choices as capacity for new projects or initiatives becomes available. Nevertheless, we will support the effective first-time implementation of our new and revised standards. This is particularly important for our in-progress projects that will result in considerable changes to be implemented by our stakeholders over the short- to medium-term. We also understand the need to give adequate time for those changes to be properly and effectively implemented and for the benefits to be observed. Efforts to ensure effective transition for these changes will also require accountancy organizations, firms, regulators and others to play their part. We are pleased and appreciative that the International Federation of Accountants (IFAC), with whom we have a strong collaborative relationship, continues to be a leader in promoting and monitoring global adoption of our standards. They have renewed their commitment to implementation support and education as a strategic priority.

I want the IAASB to be an innovator among standard-setters by making our processes more agile. The goal should be to reduce the barriers to participating in our standard-setting activities for those who have interest in reporting, auditing and assurance related activities. One way that we will do so is by developing our concept for a new '*Framework for Activities*' that should give even more transparency to our decisions and provide a more deliberate approach on where and how to focus our work effort.

We do not work in isolation. All of our work is underpinned by our interactions with our stakeholders – through our extensive outreach program and in collaboration with others. The foundational relationships already built must be further enhanced. In particular, we need to explore how we can more effectively work with others, such as National Standard Setters (NSS) and IFAC, to expand our capacity.

The IAASB developed this Strategy and Work Plan with a recognition that the Monitoring Group review of our governance and operating arrangements is ongoing. We have developed a Strategy and Work Plan in a way that we can adapt to changing circumstances. Our focus is to continue to act in a timely and independent manner to ensure the public interest is served.

The changes we will make to how we work will take time. But we are confident that as we navigate forward, these changes will facilitate and promote a more agile response while maintaining our core mandate as an international standard-setter.



Tom Seidenstein
IAASB Chair

OUR GOAL AND STAKEHOLDER VALUE PROPOSITION

Our mandate is straightforward. However, standard-setting itself is not, especially in a global context. The following messages frame the broad lens of our strategic thinking.

OUR GOAL

- **Sustained trust** in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through delivery of **robust global standards** that are in the **public interest** and capable of **consistent and proper implementation**.

OUR STAKEHOLDER VALUE PROPOSITION

- ***Public Interest Mindset:*** A mindset that puts the public interest first, backed by work plans, processes, and activities that reflect our strategic focus as an independent, standard-setting board.
- ***Accountability:*** Building trust and inspiring confidence through communication and transparency about our actions.
- ***Standards:*** Globally relevant, forward-looking, applicable to entities of all sizes and complexities, adaptable in an evolving environment, and operable; developed and supported through activities that are independent and free of undue influence, timely, and responsive to the needs of our stakeholders.
- ***Engagement with Our Stakeholders:*** Timely and meaningful dialogue with a broad range of stakeholders, including with regulatory, user and practitioner communities.
- ***Work Plans:*** Focused on delivery of our International Standards and other related activities through timely identification of, and response to, our stakeholder needs; addressing issues with a global impact while carefully balancing speed and quality, capacity utilization, and coordination with others.
- ***Methods:*** Rigorous and inclusive, including leveraging external resources where feasible. Continuously reviewed and improved to better facilitate delivery of committed work plans.
- ***Collaboration Efforts:*** Leveraging efforts of, and continuing to strengthen coordination and cooperation with the International Ethics Standards Board for Accountants (IESBA), IFAC and NSS.
- ***Implementation Support:*** Supporting the timely and effective implementation of our major new and revised standards.

STRATEGIC DRIVERS

Adapting to the environment, and meeting stakeholder needs, are the most significant drivers that have shaped our Strategy and Work Plan for 2020–2021 (Work Plan). The most relevant **strategic drivers** influencing our standards and future activities include:

Advancement in, and Use of, Technology	• Rapidly changing and evolving technologies (e.g., artificial intelligence, robotics, blockchain, cloud computing, social networks and digital payment platforms). • Developments in the use of advancing technologies, including how automated tools (including automated data analytics) are used to perform work on audit and assurance engagements, and the way that such technologies influence how engagement teams are structured and interact.
Environment for less complex entities	• Increasing pressure regarding the scalability and proportionality of the standards, in particular relating to the ISAs and quality management standards. • Changing audit thresholds are increasing the demand for other types of assurance or other services for less complex entities.
Increasing Complexity and Its Implications	• The business environment is becoming increasingly complex and as a result, financial reporting standards are responding and becoming more complex. • Accounting practice is evolving, transactions are becoming more complex and financial reporting continues to change, with more estimates and management judgments needed. • The pace of change is driving complexity by exacerbating the impact of many of the factors referred to in this section, increasing pressures on responsiveness and relevance. • The growing adoption of more complex auditing and assurance standards increases implementation and application challenges for practitioners, and, consequently, the need for guidance and support.
Changing Reporting Needs of Stakeholders	• Corporate reporting continues to evolve, with many users of corporate reports increasingly focusing on available non-financial information, and seeking assurance thereon (e.g., sustainability reporting, enhanced reporting requirements for financial institutions or reports addressing an entity's governance arrangements and internal control, and other forms of extended external reporting).
Changing Public Confidence in Audits	• Fluctuating confidence and trust in audits arising from recent high-profile corporate failures and reported poor results of external inspections in some jurisdictions. • Emerging public interest topics resulting from changing stakeholders' expectations about what the standards should require the auditor to do, such as relating to the detection and reporting of fraud, and consideration of going concern issues (i.e., the 'expectation gap' between what is expected from an audit and what the current standards require the auditor to do).

OUR STRATEGY AND FOCUS

Key to our success is delivering on the strategic actions set forth in this Strategy for 2020–2023 (Strategy), which is facilitated:

- Through our commitment to **engage, listen and learn** from our key stakeholders, and to **lead and adapt** in our global standard setting responsibilities.
- By **fostering confidence** in the quality and relevance of our processes and standards, evidenced by the many jurisdictions (over 130) using or committed to using the ISAs, including their oversight bodies (regulatory and inspection), and by user and practitioner communities.

Continuously understanding our key opportunities and challenges (identified as the **strategic drivers** influencing our work), and balancing the needs of all stakeholders, are crucial to the continued use and ongoing adoption of our standards globally.

The emphasis of our actions will be on making timely and relevant changes to respond to the evolving environment, in particular the rapid advances in technology, and other public interest areas identified as driving our work. Achieving our objectives is underpinned by our independence, effective and efficient processes, being innovative about how we undertake our work, and broad and engaging outreach and collaboration.

Our three **strategic objectives** have been developed to direct the activities we commit to in pursuit of our goal. The **strategic actions** broadly describe our planned actions for each strategic objective. Our **work plans** set out the specific actions we will undertake.

I. Increase the Emphasis on Emerging Issues to Ensure that Our International Standards Provide a Foundation for High-Quality Audit, Assurance and Related Services Engagements

Core to our activities is developing and maintaining high-quality international audit, assurance and related services standards. We will continue to focus on our traditional, core standard-setting activities, in relation to topics which are seen to be responsive to emerging and ongoing issues, in particular those topics where there is an increasing public interest. At the same time, greater attention will be given to supporting the first-time implementation of changes arising from our recent significant projects.

Strategic Actions – We will:

- Complete our major audit quality enhancements and other work underway in the first half of 2020.
- Undertake actions to develop ways to address complexity, understandability, scalability, proportionality and usability.
- Challenge and enhance the fundamentals of our International Standards by:
  - Increasing our focus on addressing emerging issues identified from the evolving environment, including how technology is impacting the implementation of the International Standards, and the growing desire for the IAASB to address non-financial reporting in light of changing corporate reporting;
  - Considering further topics to maintain public confidence in audits in light of the changing public interest (such as relating to the auditor’s consideration of fraud and of going concern); and
  - Serving as a thought leader and convening stakeholders on topics related to the future of audit and assurance.
- Undertake actions to provide standards that are easily accessible and searchable.

- Respond, as appropriate, to divergence in practice or lack of clarity in standards where it has been identified as leading to issues in audit quality, or where it provides the opportunity to enhance our standards.
- Support and facilitate the effective implementation of our standards, through developing or collaborating on support materials, including to assist first-time implementation of new and revised standards, and other related activities, to promote the changes in the initial period after a final new or revised standard is published.

II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities, and Capacity to Do the Right Work at the Right Time

Enhancing and strengthening our processes is critical to our success, and will enable our standards to remain relevant, robust and operable.

Strategic Actions – We will:

- Innovate how we work through the use of technology, new collaboration tools, and other means to increase our agility and maximize the impact of our activities.
- Develop and implement our concept of a *Framework for Activities* to include:
  - Undertaking more structured and robust information-gathering and research activities as a foundation for future workstreams, while also providing transparency about the decisions made for the work we undertake.
  - Procedures for developing and revising standards, and the effective implementation thereof.
  - Developing mechanisms for addressing issues and challenges on a more timely basis.
- Consider how we can continue to improve our due process to ensure continuing public confidence.

III. Maintain and Deepen Our Relationships with Our Stakeholders to Achieve Globally Relevant, Progressive and Operable Standards

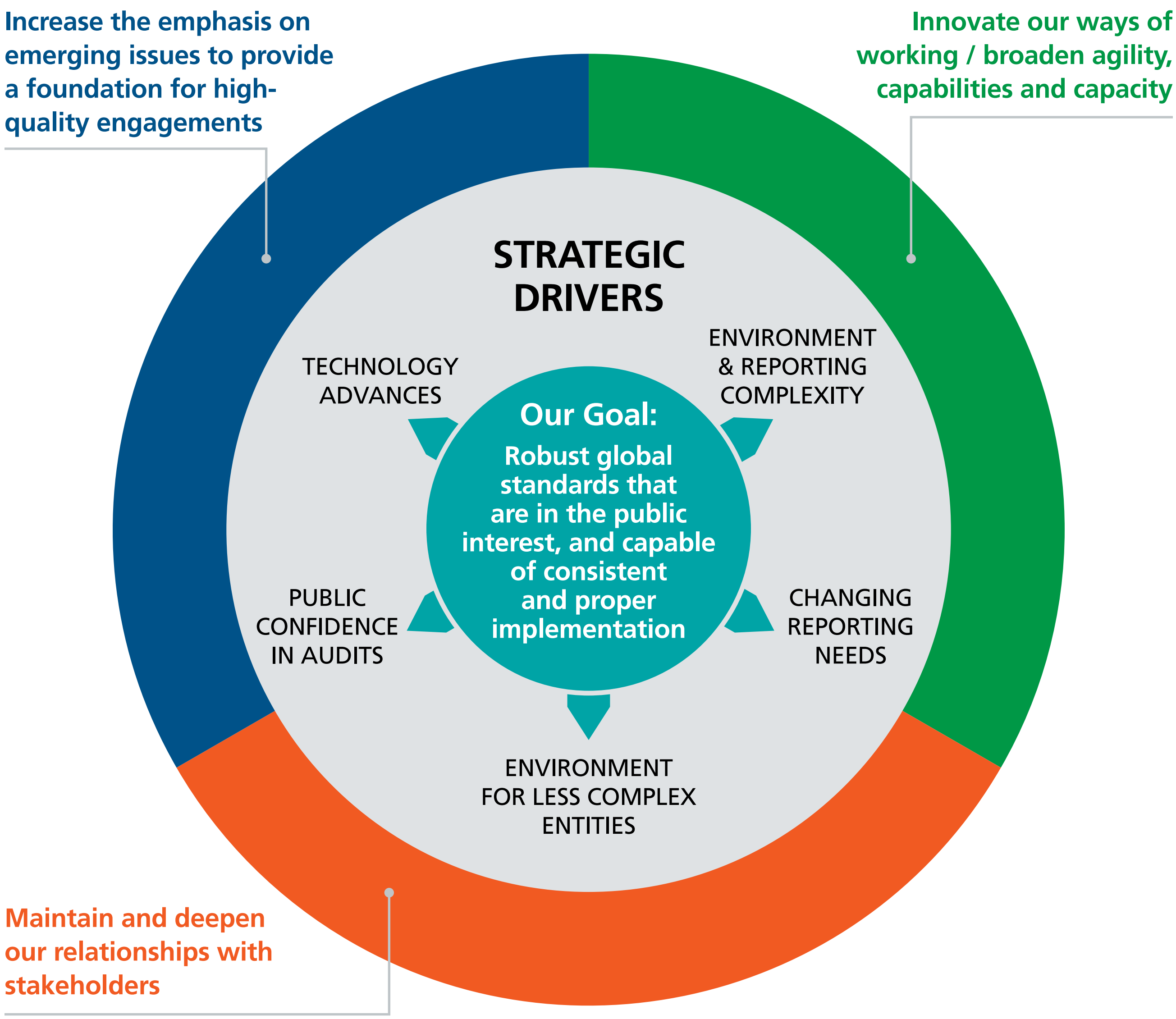
Timely and meaningful outreach and collaboration to appropriately inform our work, and to deliver on our mandate.

Strategic Actions – We will, in addition to maintaining and deepening our relationships with our key stakeholders (see Appendix 1), focus on:

- Exploring new ways to collaborate with, and leverage insight, knowledge and resources of, NSS, academics and others, as needed.
- Building on our ongoing collaborative relationship with IFAC in promoting adoption and effective implementation of the ISAs and our other standards, in particular for audits of less complex entities, emerging markets and the public sector.
- Understanding issues, including implementation issues and challenges, that affect our standards through our wide-ranging outreach program.
- Broadening the level of stakeholder interaction among all interested parties throughout the standard-setting process.

THE RELATIONSHIP BETWEEN OUR PLANNED ACTIVITIES AND OUR GOAL

We have developed our three strategic objectives taking into account the strategic drivers and the need to maintain the relevance and usability of our standards. The strategic objectives will guide the activities we decide to undertake in 2020–2023 in pursuit of our goal.



OUR WORK PLANS AND CONCEPT FOR A FRAMEWORK FOR ACTIVITIES

WORK PLANS

Our specific activities are set out in our work plans (for 2020–2021 and 2022–2023[1]).

The prioritization, timing and expected outcomes in the work plans reflect our current thinking about the allocation of existing resources and Board capacity, but could evolve as we:

- Progress our thinking on new topics in terms of our enhanced information gathering and research activities, with the purpose of responding to our strategic drivers;
- Continue to enhance staff resources, in particular at more senior levels; and
- Free up plenary capacity.

During our strategy period, we will continue to monitor internal and external developments and evaluate how changes may impact our approach to delivery of our Strategy and work plans.

IAASB Work Plan for 2020–2021

The *Work Plan for 2020–2021* describes our planned projects and activities in 2020 and 2021, including projected timelines where relevant, and is based on a full allocation of current staff, Board and other available resources. We will develop our Work Plan for 2022–2023 using the strategic objectives to guide our planned activities.

In our previous strategy period (2015–2019), we allocated most of our resources to standard-setting activities (i.e., developing new and revising standards). Our current strategy, particularly our activities relating to the first and second strategic objectives, drives us to be a more agile and responsive standard-setter. Our aim is to respond to public interest issues in a more targeted manner.

As we move into our new workstream activities, it is expected that we will devote increasing time and resources to support the early implementation and application issues relating to the changes in our standards, address complexity in, and usability of, the standards, and address emerging and public interest issues (as set out in our strategic objectives and strategic actions). Accordingly, we plan to increase the relative amount of resources to support our new and enhanced activities and workstreams, while still allocating relatively significant effort to standard setting.

Past experience has shown that we have allocated our resources to a mix of activities, but with a significant focus on standard setting (in particular in the 2015–2019 strategy period as we undertook projects to enhance audit quality). The mix of activities in this Work Plan is still reflective of this in 2020 as we complete our significant standard-setting projects. As we finish these projects and shift our focus in line with our strategic objectives during 2021 there is expected to be a change in the mix of activities.

[1] The *Work Plan for 2022–2023* will be developed during 2021, with consultation on the proposed activities as needed.

FRAMEWORK FOR ACTIVITIES

In 2020 we will develop a Framework for Activities (Framework), the concept of which is to better articulate how we organize our efforts to deliver on our committed actions.[2] Key components of the Framework envisioned include:

- **Information Gathering and Research Activities**—fact finding activities, post-implementation reviews, targeted information gathering, and other activities for scoping projects, to support future workstreams. Output from this component is intended to inform the Board's decisions about its future work streams.
- **Revising and Developing Standards**—following due process in the development of new or revised standards, including consulting further (as needed), developing an exposure draft and related conforming and consequential amendments, developing changes to address comments on exposure and activities related to finalization of a new or revised standard.
- **Narrow Scope Maintenance of Standards**—Developing responses to address issues in a more nimble or timely way, which may include narrow-scope amendments to standards, or interpretations relating to specific questions about an approved standard.

- **Activities to Support Implementation of the IAASB's Standards**—Developing support materials, and other related activities to assist with the effective implementation of new and revised standards in the initial period after a final standard is published, or developing non-authoritative guidance where information gathering has indicated that guidance is needed, or the issue relates to a specific industry.

In carrying out our activities, we will look to continued collaboration and resource leveraging opportunities, as appropriate and as needed, with IFAC, NSS, the academic community, and others.

[2] The Framework will be more comprehensively developed as we continuously enhance our processes and procedures during the strategy period (and in accordance with our strategic objectives).

DELIVERY OF THE STRATEGY AND WORK PLAN

Delivery of our Strategy and Work Plan is under constant scrutiny by ourselves and our stakeholders in relation to:

- Meeting targeted outcomes set out in our Work Plan.
- Expanding global adoption of our standards, including adoption of new and revised standards by jurisdictions who are already using our standards.
- Facilitating the effective first-time and continuing implementation of new and revised standards.
- Building stronger relationships with key stakeholders.

Managing delivery of our committed Work Plans with limited resources requires careful consideration of the allocation of the available resources to the planned activities in the Work Plan in the most effective way. Our primary resources include a combination of staff and volunteer time from Board members, technical advisors and others, and financial resources in the form of an operating budget. The Framework being developed will help guide our decisions regarding the allocations of these resources, for which there are inherent limitations.

Accountability to our stakeholders about our actions, including how we undertake our activities, underlies the trust and confidence our stakeholders have in our standards. Therefore, we recognize the importance of demonstrating accountability to our stakeholders. As we develop our Framework, we will also consider how we can enhance transparency about how we are meeting our objectives and our goal. This will likely take into account, among other things, our efforts to change the focus of our activities (for example, enhanced implementation activities and more robust information gathering), changes in the adoption and use of our standards, how we collaborate with others to increase the capacity for our activities, and how we have strengthened relationships.

APPENDIX: MAINTAIN AND DEEPEN OUR CONNECTIONS WITH OUR KEY STAKEHOLDERS

We work with many stakeholders, with a variety of expectations and needs that must be balanced and prioritized. Where necessary, we will seek out additional stakeholders in an effort to expand our influence or gain a greater understanding. Most importantly, our strategy must reflect and respond to the needs of all stakeholders in an integrated way. In maintaining and deepening our connections we plan to:

- Continue to **interact with the** IAASB's Consultative Advisory Group **(CAG)**. The CAG is a fundamental part of our engagement with our stakeholders and is a key element of our due process. The CAG is comprised of over 30 member organizations representing global regulators, business and international organizations, accountancy regional bodies and users and preparers of financial statements.
- Further enhance our **coordination efforts with IESBA**.
- Explore new ways to expand our **collaboration with NSS** to optimize our activities.
- Continue our two-way coordination with the **International Accounting Standards Board**, providing input on auditability and verifiability of new and revised International Financial Reporting Standards (including in relation to, for example, its projects on management commentary and primary financial statements), thereby contributing to the quality of financial reporting.[3]
- Increase collaboration with the **International Forum of Independent Audit Regulators** and other **regulators and oversight bodies** to identify emerging issues related to the application of our standards and further explore causal factors for these issues.
- Further enhance working relationships with **investor groups, audit firms, the public sector, and other standard-setting bodies** (such as the International Valuation Standards Council) to help understand their concerns.
- Build on our existing **collaborative relationship with IFAC** and its various committees, in particular in relation to implementation support activities.
- Continue to establish **subject-specific Advisory Panels**, as needed, to enable Task Forces and Working Groups to receive timely input on developing proposals from a broad range of relevant stakeholders.

[3] For more information about the IAASB's liaison with the IASB see the project page: http://www.iaasb.org/projects/iaasb-iasb-liaison

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INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

WORK PLAN FOR 2020–2021

IAASB International Auditing and Assurance Standards Board

INTRODUCTION

This **Work Plan** for the period 2020–2021 ('Work Plan') sets out our specific projects and activities to support our strategic objectives and actions described in our ***Strategy for 2020–2023*** ('Strategy'). This Work Plan benefits from our initial thinking around our concept of a ***Framework for Activities*** ('Framework'), focused on orderly and thoughtful selection, prioritization and scoping of forward work.

Our Work Plan sets out our best view of how we can most effectively and efficiently deliver our International Standards, and other activities, to respond to our stakeholder needs and identified challenges and issues. It assumes full utilization of our current resources and capacity. Our commitment to projects and activities as set out in the Work Plan, takes into account available resources (e.g., people, plenary time and operating budget), and the needs of different stakeholders. We have determined and prioritized our planned actions to deploy our resources in a manner that reflects activities that are influenced by the identified strategic drivers in our Strategy.

The Work Plan also illustrates the shift in focus to enable more agility in our responsiveness.

OUR DETAILED WORK PLAN FOR 2020–2021

Our detailed Work Plan is presented below and is our best estimate, at the time of approval, for how we will progress the various projects and workstreams. This Work Plan may change given the nature of the issues, the complexities of the projects, stakeholders' feedback, and the need to be flexible in responding to environmental changes.

Broadly, our time and effort in 2020 to 2021 will focus on:

- Initially, completing projects already underway.
- Activities to support the effective implementation of the recently issued, or completed, International Standards on Auditing (ISAs) and quality management standards.
- Information gathering and research activities to inform the nature and scope of new projects and workstreams.
- Monitoring the environment and timely analysis of new and evolving issues that may affect our standards, and related activities thereafter as needed.
- Developing the Framework.
- Outreach and related activities.

This Work Plan has been developed taking into account existing staff resources and expected Board capacity.

HOW WE DETERMINE OUR NEW ACTIVITIES AND PRIORITIES

Our *new* projects and activities that will commence in 2020 and 2021 will be:

Determined taking into account:

- Our goal, strategic drivers and strategic objectives.
- Whether it is in the public interest to pursue the action.
- The global need for action.
- Our capacity for new projects, including the availability of staff, Board and other resources.
- The nature of the project or activity.
- Whether a global response will be timely.
- If standard-setting, the ability of practitioners to be able to adopt the standard in a high-quality manner.

Informed by the activities within the information gathering and research component.

In reflecting on the public interest benefits, we independently consider:

- The extent to which the action will further enhance the quality and value of audit, assurance and related services engagements globally;
- The appropriateness of the action to contribute overall to standards that are relevant, robust and operable in accordance with the needs of our stakeholders; and
- The extent to which the action serves to facilitate enhanced public confidence in financial and other external reporting.

POOL OF POSSIBLE TOPICS FOR FUTURE CONSIDERATION

Before a topic is taken onto the Board's agenda, the Board will complete information gathering and research to determine the nature and scope of the Board's future work. These activities will benefit from criteria under development for the Framework. The criteria will broadly cover the matters set out above.

Whether a topic could be considered for a Board project or workstream (for example, Revising and Developing Standards; Narrow Scope Maintenance of Standards or Activities to Support Implementation of the IAASB's Standards) is dependent on the topic meeting the specified criteria (to be developed). The Board will always take into account the balance between information gathering and research and the need for timely action to address topics of public interest. Information gathering and research activities will be grouped as follows:

CATEGORY A

Activities to explore new topics and monitor existing known topics that fall into our remit, and that may require further Board consideration. Actions for gathering information may include, for example, post-implementation reviews, scanning the environment, interacting with stakeholders and other surveys. Once a possible new topic is identified (because it meets the criteria for more active consideration) it will move to Category B for more focused action, or may be subject to another action that may be appropriate to the circumstances.

CATEGORY B

More focused information gathering and research activities to understand and evidence identified issues and challenges that fall into our remit, and that are globally relevant. Once the relevant criteria have been met, such topics may move to Category C, or the Board may determine that no further action is necessary.

CATEGORY C

Activities focusing on analyzing identified topics to determine recommendations for Board action (including the scoping of such work and the development of a project proposal as needed). The outcome(s) from these activities may include new projects or workstreams on our work plan. Topics within this category would likely utilize Board plenary time for discussion of matters being considered.

The activities within the information gathering and research component may be undertaken by staff, working groups or in collaboration with others (such as National Standard Setters (NSS), academics or others).

Although it is not intended that topics in our information gathering and research categories would all necessarily travel in a linear manner through each category, this may often still be the case because of the logical flow-through from Category A to B to C. This is apparent for certain workstreams within the detailed work plan table (see pages 6–7). For example, in relation to Fraud and Going Concern, there is progression from an initial level of activity associated with Category B, picking up to more focused activities associated with Category C (the Work Plan table has been shaded according to expected level of activity). The relevant activity level will be dependent on how the criteria for each category have been met in relation to that topic, as well as the outcomes of the information gathering and research activities.

We believe that this approach will allow us to be more informed and deliberate in our future actions. Part of achieving this is to ensure the timely flow-through of topics. The timing will vary depending on the nature of the work being undertaken, for example, Category C could involve the detailed scoping of a substantial standard-setting project (for example involving a number of ISAs) that could take up to 18 months, or it could be significantly quicker for a narrower scope standard-setting project.

OUR DETAILED WORK PLAN	2020				2021			
Project	March	June	Sept	Dec	March	June	Sept	Dec
I. Increase the Emphasis on Emerging Issues to Ensure that Our International Standards Provide a Foundation for High-Quality Audit, Assurance and Related Services Engagements								
Revising and Developing Standards								
ISQM 1[1]	X	F						
ISQM 2[2]	X	F						
ISA 220 (Revised)[3]	X	F						
ISA 600 (Revised)[4]	E		X	X	X	F		
Conforming Amendments to Other Standards Arising from Quality Management Standards			X	E		X	F	
Conforming Amendments to IAASB Standards Arising from Changes in the IESBA Code of Ethics for Professional Accountants (Including International Independence Standards)								
New Project Placeholder (Note I)								
Maintenance of Standards								
New Project(s) Placeholder (Note I)								
Activities to Support Implementation–Development of Non-Authoritative Guidance and Other Activities Related to Standard-Setting								
Extended External Reporting (EER) (non-authoritative guidance)		X	X	F				
Technology (ongoing) (Note II)		X	X	X		X		X
Professional Skepticism (ongoing) (Note II)			X		X		X	
Work Plan 2022–2023					X		X	F
Handbook–changes to standards and digitization								

[1] Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

[2] Proposed ISQM 2, *Engagement Quality Reviews*

[3] Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

[4] Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

OUR DETAILED WORK PLAN	2020				2021			
Project	March	June	Sept	Dec	March	June	Sept	Dec
Activities to Support Implementation–First-time Implementation Activities (Note III)								
ISA 540 (Revised)[5]								
ISA 315 (Revised 2019)[6]			X					
Revised Quality Management Standards (ISQM 1, ISQM 2, ISA 220 (Revised))					X			
ISA 600 (Revised)								
Information Gathering and Research								
Matters Related to Audits of Less Complex Entities (Category C) (Note IV)	X	R	X	X	X	R		
Audit Evidence (Category C) (Note IV)	X	R	P					
Fraud (Category B and C) (Note IV)			X	X		P		
Going Concern (Category B and C) (Note IV)			X		X		P	
Other (Category B or C) (Note IV)						X	X	P
Category A Monitoring			X				X	
Auditor Reporting Post-Implementation Review (Note V)				X		X		
ISA 540 (Revised) Post-Implementation Review (Note V)							X	
II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities and Capacity								
Developing the Framework for Activities (Note VI)	X	X	X	X				
Strengthening collaboration efforts with NSS and the International Federation of Accountants (IFAC)								
III. Maintain and Deepen Our Relationships with Our Stakeholders								
Outreach program (see Appendix 2)								
Coordination with the International Ethics Standards Board for Accountants (IESBA)			X				X	
Liaison activities with the International Accounting Standards Board (IASB)			X			X		

[5] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

[6] ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

KEY TO OUR DETAILED WORK PLAN:

Appendix 1 sets out a description of the projects and workstreams included in the table above, which also categorizes the projects and workstreams by strategic action.

Cells with:

A green highlight indicates expected Working Group, Task Force or Staff activity. The **darker** the shade of color, the more time and activity is needed for that particular workstream.

A letter within a cell indicates plenary time as follows:

- '**X**' indicates that IAASB plenary meeting time is scheduled for Board discussions.
- '**R**' indicates **recommendations** for a way forward.
- '**P**' indicates the **targeted** approval of project proposal.
- '**E**' indicates the **targeted** approval of an Exposure Draft.
- '**F**' indicates the **targeted** final approval by the IAASB of a new or revised standard.

Notes:

I = **New Project Placeholders**—These represent a placeholder for a new project(s) (for example, topics currently within Categories B and C of the 'information gathering and research component,' such as audit evidence, audits of less complex entities, fraud, going concern, or a project arising from the IAASB's coordination activities with the IESBA). As the nature of future workstreams is still to be determined (i.e., standard-setting / narrow scope amendments / support for the implementation of standards), each of the placeholders is indicative (at this time) about where future work will be undertaken and may therefore change. Board plenary time, and expected outputs, will also be determined once the nature of the project has been decided. The number of projects we will undertake may also vary; it may be one significant standard-setting project, or one or more smaller project(s) (which will be determined based on resources and capacity available at the time).

II = **Ongoing initiatives**—includes activity by dedicated working groups to undertake ongoing information gathering and research activities related to a specified topic, as well as the development of guidance and other materials as needed, and inputting to our other projects as relevant.

III = **Activities to Support Implementation**—Activities in the six to nine months following the approval of a new or revised standard to support implementation of new or revised standards (although using limited Board plenary time). These activities may include the development of guides (e.g., a 'first-time implementation guide' explaining the substantial changes made), fact sheets, flow charts, frequently asked question documents, video panel discussions or focused presentations relating to the changes.

IV = **Information Gathering and Research Topics**—Topics in Category A within the information gathering and research component of the Framework will be monitored by a dedicated resource within the IAASB, with an annual update provided to the IAASB as to the status of the topics within Category A, as well as relevant discussions when a topic should be more actively pursued.

In relation to Categories B and C, the expected time in the information gathering and research component is indicated by the green activity blocks (shaded according to expected level of activity). It is expected that those topics that have been named in Categories B and C will transfer to another component of the Framework at the time that activities related to information gathering and research ends or a project proposal is approved by the Board (subject to the outcome of the Board's discussions, and the Board's decision(s), in relation to such topics).

The outcomes of information-gathering and research activities may result in standard-setting or other projects or workstreams, such as narrow-scope maintenance of standards or the development of non-authoritative guidance, or no further action. The projection of Board plenary time beyond information gathering and research activities is not determinable at this time and has not been presented in this Work Plan. Approved project proposals will set out the expected timing of future Board work, and this Work Plan will be updated accordingly at that time.

V = **Post-Implementation Reviews**—The findings from the post-implementation reviews may result in further information gathering and research activities, or a project or other workstream activity for the IAASB depending on the findings from the review.

VI = **Development of the Framework for Activities**—will be staff-led, with oversight by a specified IAASB member. Discussions with the IAASB as the Framework is further developed will consume Board meeting plenary time in 2020.

ALLOCATION OF RESOURCES

Our Work Plan is ambitious in 2020 and 2021, and will draw on our full capacity to deliver high-quality standards, and undertake our activities in a timely manner. The Work Plan as set out above is expected to be supported by a direct operating budget of approximately $12.5 million over the period (excluding operational support received from IFAC).

The work that can be undertaken is also limited to the volunteer hours, consultant hours and staff capacity available to undertake activities that we have committed to. We will allocate these resources on the basis of information about new initiatives or projects that will need to be started (from the information gathering and research component of the Framework) and past experience of the capacity needed to deliver our projects and initiatives.

APPENDIX 1

DESCRIPTION OF PROJECTS AND INITIATIVES IN THE WORK PLAN 2020–2021

More information about our projects can be found on the project page: http://www.iaasb.org/consultations-projects. A direct link to the project page is included in the project title.

The last column illustrates the component within the Framework that the planned action is related to. For new and ongoing activities, these have been grouped to reflect the strategic drivers being addressed by the relevant planned action.

I. Increase the Emphasis on Emerging Issues		
Complete Our Major Audit Quality Enhancements and Other Work Underway and Support and Facilitate Effective Implementation		**Framework for Activities Component**
Revising and Developing Standards		
ISQM 1 – Quality Management at Firm Level	The purpose of the revisions to ISQC 1[7] is to improve firms' management of quality for all engagements performed under the IAASB's International Standards. This will be achieved through the introduction of a risk-based approach to the management of quality and strengthening various aspects of the standard, including governance and leadership, resources, information and communication, monitoring and remediation and networks.	Revising and Developing Standards
ISQM 2 – Engagement Quality Reviews	ISQM 2 aims to strengthen and clarify various aspects of engagement quality reviews, including the engagements to be subject to such reviews, the eligibility criteria for engagement quality reviewers and the performance and documentation of the reviews.	Revising and Developing Standards
ISA 220[8] – Quality Management at Engagement Level	The purpose of the revisions to ISA 220 is to strengthen aspects of quality management for individual audit engagements by focusing on quality management in a broad range of engagement circumstances.	Revising and Developing Standards
ISA 600[9] – Group Audits	This project is being undertaken to revise ISA 600 to strengthen the auditor's approach to a group audit, and to clarify the role of ISA 600 in relation to other ISAs, such as ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.	Revising and Developing Standards
Conforming Amendments Projects	Projects undertaken to make conforming and consequential amendments arising from: • The revised *IESBA Code of Ethics for Professional Accountants (Including the Independence Standards)*; and • The projects to revise the IAASB's quality management standards. This project will scope in the IAASB's non-ISA standards.	Revising and Developing Standards

[7] ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

[8] ISA 220, *Quality Control for an Audit of Financial Statements*

[9] ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Activities to Support Implementation of the IAASB's Standards		
Extended External Reporting	The purpose of this project is to develop non-authoritative guidance applicable to applying ISAE 3000 (Revised)[10] to EER engagements, and to provide thought leadership on assurance issues in relation to EER. This includes determining the scope of an EER assurance engagement, exercising professional skepticism and professional judgment, obtaining the competence necessary to perform the engagement, and communicating effectively in the assurance report.	Developing Non-Authoritative Guidance
Technology (Ongoing)	The objective of this workstream is to identify matters for which there is an opportunity for a more immediate response through developing and issuing guidance to address the effect of technology when applying certain aspects of the ISAs. The Technology Working Group also works with other task forces and working groups to input on relevant matters relating to technology on current projects.	Other Activities Related to Standard-Setting
Professional Skepticism (Ongoing)	The objective of this workstream is to make recommendations on how to more effectively respond to issues related to professional skepticism. The Professional Skepticism Working Group also works with other task forces and working groups to input on relevant matters relating to professional skepticism on current projects.	Other Activities Related to Standard-Setting
IAASB Activities to Support the First-Time Implementation of New and Revised Standards		
ISA 540 (Revised)	Completion of activities to support awareness, understanding and effective implementation of ISA 540 (Revised).	Activities to Support Implementation of the IAASB's Standards
ISA 315 (Revised 2019)	Activities to support awareness, understanding and effective implementation of ISA 315 (Revised 2019) as needed.	Activities to Support Implementation of the IAASB's Standards
Quality Management Standards	Activities to support awareness, understanding and the effective implementation of the quality management standards as needed.	Activities to Support Implementation of the IAASB's Standards
ISA 600 (Revised)	Activities to support awareness, understanding and effective implementation of ISA 600 (Revised) as needed.	Activities to Support Implementation of the IAASB's Standards
Information Gathering and Research		
Matters Related to Audits of Less Complex Entities (Category C)	In 2020 and 2021, we will use the responses from the Discussion Paper, *Audits of Less Complex Entities*, to inform us on the views of our stakeholders and to determine a way forward. Information gathering and research activities will continue until June 2020. At that time the IAASB plans to make a decision about the way forward.	Initially Information Gathering and Research Activities

[10] International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Audit Evidence (Category C)	The initial objective of this workstream is to perform further information gathering and research activities to identify and prioritize audit-evidence-related issues when applying the ISAs. This information will be used to develop informed recommendations for possible further Board action to address such issues.	Initially Information Gathering and Research Activities
Fraud (Category B and C)	The initial objective of this workstream is to further consider the issues and challenges related to applying ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, in light of the changing environment, jurisdictional developments and changing public expectations.	Initially Information Gathering and Research Activities
Going Concern (Category B and C)	The initial objective of this workstream is to further consider the issues and challenges related to applying ISA 570, *Going Concern*, in light of the changing environment, jurisdictional developments and changing public expectations.	Initially Information Gathering and Research Activities
Addressing Some or All Strategic Drivers		
Ongoing Information Gathering and Research (Category A)	The objective of our research activities is to support future workstreams with activities as relevant to the topics within Category A. The strategic drivers identified and environmental developments during the strategy period will influence the topics that are taken up by the IAASB. Topics included in Category A may be sourced from consultations of the IAASB (including prior consultations), outreach and the work undertaken in developing the IAASB's strategy and work plans.	Information Gathering and Research Activities
Auditor Reporting Post-Implementation Review	Monitoring global developments in auditor reporting, with a focus on identifying whether there are practical implementation and other related issues that are causing the new and revised Auditor Reporting Standards,[11] and ISA 720 (Revised),[12] to not achieve their intended purpose. In addition, the post-implementation review will explore whether there are ways to improve the quality of the communication of key audit matters and other matters that could improve transparency about the audit that were not included in the new and revised Auditor Reporting Standards and ISA 720 (Revised).	Information Gathering and Research Activities
ISA 540 (Revised) Post-Implementation Review	Activities, as appropriate, to monitor the implementation of ISA 540 (Revised), with a focus on identifying whether there are practical implementation and other related issues that are causing the revised standard to not achieve its intended purpose.	Information Gathering and Research Activities

[11] The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs

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

II. Innovate Our Ways of Working to Strengthen and Broaden Our Agility, Capabilities and Capacity		
Framework for Activities	Further develop and implement a Framework that will include: • Undertaking more structured and robust information gathering and research activities as a foundation for future work streams, while also providing transparency about the decisions made for the work we undertake. • Revising and developing standards, and the effective implementation thereof. • Developing mechanisms for addressing issues and challenges on a more timely basis	Strengthening and Broadening Capabilities and Capacity
Strengthening Collaboration with NSS and IFAC	Explore new ways to expand our collaboration with NSS and IFAC to optimize our activities, for example in relation to implementation support activities.	Strengthening and Broadening Capabilities and Capacity
III. Maintain and Deepen Our Relationships with Our Stakeholders[13]		
Coordination with IESBA	Coordination activities with IESBA involve proactive collaboration and transparent and timely communications between staff and members of the two Boards to determine and address matters of mutual impact.	Outreach
Liaison Activities with IASB	Continue our two-way coordination with the IASB providing input on the audibility and verifiability of new and revised International Financial Reporting Standards (including in relation to, for example, its projects on management commentary and primary financial statements), thereby contributing to the quality of financial reporting.	Outreach

[13] Appendix 2 sets out details about the IAASB's outreach program

APPENDIX 2

OUR OUTREACH PROGRAM

Annually, IAASB representatives undertake outreach with our key stakeholders, to maintain our stakeholder relationships, obtain input and monitor developments within the environment. IAASB members and Staff also undertake a considered and active engagement strategy, including personal visits and meetings, participation in conferences, discussion groups and forums, as well as webinars and other methods of communication to inform and engage on technical topics.[14] In 2020 and 2021 we will also be exploring new collaboration tools to reduce barriers to engagement with all our stakeholders.

SUMMARY OF ANNUAL STAKEHOLDER ENGAGEMENT

The following minimum stakeholder engagement will be undertaken by IAASB members, technical advisors and staff. In addition, we will focus on enhancing our outreach with certain stakeholder groups, such as investors and those charged with governance.

Stakeholder	Description of Interactions
Consultative Advisory Group (CAG)	• Bi-annual 2-day meetings with CAG Representatives • Teleconferences with CAG Representatives as necessary
Other International Standard-Setting Boards	• Annual joint session with IESBA and other collaboration activities as described in the Strategy and Work Plan • Annual IASB Update from a Representative and annual meeting with IASB leadership • Regular interactions between chairs of other standard-setting boards to discuss areas of joint interest

[14] In addition to the outreach activities included in this section, we inform our stakeholders about our activities through press releases, newsletters, reports and podcasts.

Stakeholder	Description of Interactions
Meetings with Regulators and Oversight Bodies	• Annual or semi-annual meetings with representatives from, or presentations to regular meetings of: – The International Forum of Independent Audit Regulators, and its Standards Coordination Working Group – International Organization of Securities Commissions, and its Committee on Issuer Accounting, Audit and Disclosure – International Association of Insurance Supervisors – Basel Committee on Banking Supervision's Audit Subgroup • Meetings with regulators and oversight bodies on "country visits" (see below)
NSS	• Annual two-day standard setters meeting with representatives from 18 standard setters globally • Meeting with representatives from standard-setters in "country visits" (see below)
IFAC Member Bodies and Accountancy Organizations	• Meetings with representatives from member bodies on "country visits" (see below) • Presentations about our activities at member body conferences and forums • Participation in panels at member body conferences and forums
Accounting Firms	• Presentations at, and participation in, bi-annual meetings of the Forum of Firms (representing the 31 largest networks) • Meetings with firm leadership • Presentations at global and regional conferences of firms
Public Sector	• Attendance at annual International Organization of Supreme Audit Institutions Financial Audit and Accounting Subcommittee meetings
Academic Community	• Presentations about our activities at various academic related conferences
Country Visits	• Meetings with relevant stakeholders including regulators and audit oversight bodies, NSS, member bodies, investor groups and others on a rolling basis globally

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