FREQUENTLY ASKED QUESTIONS

The impact of COVID-19 on audit considerations

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- This document has not been subject to any formal process of the IRBA or SAICA and merely outlines the outcome of the engagements between the IRBA and the AGC.
- This is a live document that is subject to change and is non-authoritative.
- This document does not impose requirements on auditors beyond those included in the International Standards on Auditing (ISAs) and does not change the auditor's responsibility to comply with all ISAs relevant to the audit and with each requirement of an ISA (unless, in the circumstances of the audit, an entire ISA is not relevant, or a requirement is not relevant because it is conditional and the condition concerned does not exist).
- Although specific references to the ISAs have been included in this document, the auditor is still required to have an understanding of the entire text of the ISAs to assess whether or not any particular FAQ is relevant to an engagement, and if so, to enable the auditor to apply all the requirements of the particular ISAs properly.
- The concepts of professional scepticism and professional judgement should be applied in all the scenarios described in the FAQs. The different approaches presented are not necessarily the only acceptable approaches. The auditor must obtain sufficient appropriate audit evidence in the circumstances of a particular audit in accordance with the requirements of the ISAs relevant to the audit.
- The auditor is required to prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's conclusions and report, and evidence that the audit was planned and performed in accordance with the ISAs and applicable legal and regulatory requirements. Auditors are alerted to pay specific attention to the documentation requirements in accordance with ISA 230, *Audit Documentation*, and all other ISAs relevant to the audit.

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Introduction: Quality control and compliance with prescribed standards and legislation

COVID-19 is a global pandemic that has resulted in a worldwide health and humanitarian crisis. The pandemic not only impacts all facets of life but also has a significant impact on financial reporting and the manner in which audits are performed. With potentially increased audit risk and the inability to perform physical site visits, auditors need to be innovative in adjusting the audit approach and designing alternate procedures to gather sufficient appropriate audit evidence to support the audit opinion.

Auditors are reminded that despite the restrictions and other challenges that may be encountered, they are still required to comply with the prescribed standards and other pronouncements, albeit that certain requirements will be heightened and require enhanced consideration. This includes continuing to implement the required quality control policies and procedures at both firm and engagement level to ensure that the required level of audit quality is maintained. As indicated in the staff alert issued by the International Auditing and Assurance Standards Board (IAASB) in March 2020, titled *Highlighting Areas of Focus in an Evolving Audit Environment Due to the Impact of COVID-19*[1], firms need to consider changes in how and where auditors are executing their work and respond to these changes by considering the impact on quality control policies and procedures, specifically as it relates to direction and supervision of engagement teams and the review of their audit work.

Given that there are restrictions on travel, face-to-face meetings and access to client premises as a result of the lockdown measures imposed by the government during this period, auditors face practical difficulties in executing their audit engagements. These inconveniences to the auditor should not, however, undermine audit quality. Auditors still have a responsibility to plan and perform the audits according to the ISAs. They should consider how to gather sufficient appropriate audit evidence and recognise that they may need to change the audit approach and develop alternative procedures. Such procedures may be non-traditional and may require employing greater use of technology to examine and obtain audit evidence.

Changing the audit approach and employing alternative procedures may have the impact of audits requiring additional time to complete, resulting in delays in company reporting. As a consequence, auditors may need to postpone the issuance of their audit report, and where this is not possible or not likely to resolve the issue, auditors may need to modify their audit report to reflect that they have not been able to obtain the necessary audit evidence. In this regard, some regulators have granted

[1] Available at https://www.ifac.org/system/files/uploads/IAASB/Staff%20Alert%20-%20Audit%20Considerations%20Arising%20from%20Changes%20Due%20to%20Coronavirus.pdf

extensions to the issuers of financial statements. These include the JSE Limited, the Financial Sector Conduct Authority (FSCA) and the South African Reserve Bank (SARB).

Confidentiality and security of information

The auditor is alerted to new and/or additional risks that may arise as a result of using alternative means to transfer and store information and is urged to consider how the confidentiality and security of this information will be ensured and maintained.

Professional scepticism

The auditor is required to plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated[2]. Covid-19 and the related consequences have resulted in the risks of material misstatement, either as a result of fraud or error, being elevated. Changes in the internal control environment under which entities operate may result in more errors occurring in financial reporting due to the different means of processing, recording and reporting financial information. Perceived opportunities to commit fraud as a result of a different working environment, as well as increased economic pressure heightens the risk of the occurrence of fraud. Auditors need to be alert to these risk factors and ensure that the appropriate level of professional scepticism is applied throughout the audit.

The response to each FAQ includes references to materials developed by other institutions. Please read these other materials in addition to the responses to the FAQ, as further guidance in the other materials may be useful.

Also refer to the following websites, which are updated regularly:

- **SAICA's dedicated COVID-19 resources webpage**
- **IRBA's dedicated COVID-19 resources webpage**

[2] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing*, paragraph 15.

Pre-engagement activities

1. Will the auditor's ability to obtain sufficient appropriate audit evidence be affected or restricted in any way and how does this impact the scope of the audit?

On 23 March 2020, the South African government announced a national lockdown whereby individuals are not allowed to leave their homes except under strictly controlled circumstances. All shops and businesses are also required to close, with limited exceptions (referred to as "essential services"). As a result, auditors are not able to obtain physical access to clients' premises to carry out audit procedures necessary to obtain sufficient appropriate audit evidence. The national lockdown may therefore result in the ability of the auditor to obtain sufficient appropriate audit evidence in certain areas being negatively affected and/or restricted.

The scope of an audit does not change as a result of COVID-19 restrictions and the auditor will still be required to obtain reasonable assurance about whether the financial statements are free from material misstatement[3] and report that the financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the company as at its year end date, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS)[4].

To the extent that the auditor established the audit approach prior to COVID-19 and the subsequent lockdown, the auditor should consider whether the established audit approach is still appropriate or whether this needs to be revised, taking into account the potential restrictions that may be encountered but also including potential delays in obtaining information from the client.

ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* (ISA 705 (Revised)), states that the auditor's inability to obtain sufficient appropriate audit evidence may arise from, among others, circumstances beyond the control of the entity[5]. ISA 705 (Revised) continues to state that an inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is, however, not possible and the auditor is not able to obtain sufficient appropriate

[3] ISA 200, paragraph 11(a).
[4] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 25.
[5] ISA 705 (Revised), paragraph A8.

audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall consider a modification to the auditor's report in accordance with ISA 705 (Revised)[6].

It is important to note that an inability to perform specific procedures does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence from performing alternative procedures[7].

The auditor can make use of technology to obtain and examine audit evidence. Regardless of how the information is obtained or examined, the auditor must always ensure that the information is relevant and reliable[8] and results in sufficient appropriate audit evidence being obtained to support the audit opinion[9]. If the entity does have an internal audit function, the external auditor should consider whether the work of the internal auditors can be used and, if so, how this impacts on the nature and timing of the audit procedures or reduces the extent of the audit procedures to be performed by the external auditor[10]. The external auditor may also consider using the internal auditors to provide direct assistance as their possible ability to access information may be useful to the external auditor.

In establishing the audit approach, the auditor should be cognisant of potential delays in obtaining information from the entity and consider whether additional time is needed in completing the engagement.

References and additional useful resources:

- Journal of Accountancy: Remote auditing comes to forefront during pandemic
- Financial Reporting Council (FRC): Gathering Evidence through Remote Means
- FRC: COVID-19 bulletin, March 2020
- Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing

[6] ISA 705 (Revised), paragraph A9.
[7] ISA 705 (Revised), paragraph A9.
[8] ISA 500, *Audit Evidence*, paragraph 7.
[9] ISA 700 (Revised), paragraph 11(a).
[10] ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 13.

Planning

2. Are there specific audit risks related to the operation of the entity or otherwise that the auditor should consider?

Fraud

The general economic outlook, which has been aggravated by COVID-19 and the related lockdown, has increased the possibility and likelihood of fraud and error. The auditor is therefore encouraged to carefully consider the existence of fraud risk factors in identifying and assessing the risks of material misstatement (RoMM) of the financial statements due to fraud and ensure that sufficient appropriate audit evidence is obtained regarding the assessed RoMM. In doing so, the auditor is reminded to apply the required level of professional scepticism.

The auditor should consider the impact of the following in identifying and assessing the RoMM:

- The heightened risk of management override due to increased pressure to commit fraudulent financial reporting;
- The increase in the level of estimation uncertainty heightens the RoMM regarding amounts that involve estimation, including impairments, fair value measurements and provisions;
- Changes in the manner in which the operations of the entity are typically executed during the lockdown period, including the impact on the internal control environment and working remotely. This may create a perceived opportunity to commit fraud when the internal control environment is seen to be weaker than usual; and
- Changes to the internal controls subsequent to the lockdown, including the impact of staff storages due to either retrenchments or illness.
- Other factors:
    - Not having access to original documents;
    - No face-to-face communication; and
    - The ability of the auditor to obtain access to staff members outside the financial department.

References and additional useful resources:

- AICPA: Consequences of COVID-19: Potential Auditing Challenges
- AICPA: FAQs: Audit matters and auditor reporting issues related to COVID-19
- The Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit: A Guidance for Auditors
- Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing
- Australian Auditing and Assurance Standards Board (AUASB): Additional COVID-19 FAQs for Auditors

Going concern

Management is responsible for the assessment of the entity's ability to continue as a going concern. The auditor's responsibility in relation to going concern is to evaluate and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and to conclude whether a material uncertainty related to going concern exists[11].

When performing risk assessment procedures in accordance with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* (ISA 315 (Revised)), the auditor is required to consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as going concern[12]. The auditor is also required to remain alert, throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern[13].

COVID-19 has impacted various industries to varying degrees and may in many instances have heightened the risk of management inappropriately using the going concern basis of accounting in the preparation of the financial statements.

[11] ISA 570 (Revised), *Going Concern*, paragraph 6.
[12] ISA 570 (Revised), paragraph 10.
[13] ISA 570 (Revised), paragraph 11.

Matters that may impact on the auditor's risk identification and assessment relating to going concern include:

- The general economic outlook and the potential impact on the continued operations of the entity;
- The economic outlook of major suppliers and customers of the entity and the existence of alternate suppliers and the ability of the entity to expand the existing customer base;
- The ability of the entity to recover debt owed; and
- The impact of the entity being closed during lockdown.

References and additional useful resources

- Malaysian Institute of Accountants: COVID-19: Frequently Asked Questions on Auditing
- Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing

Fair value measurement and impairment considerations

The auditor should consider how COVID-19 and the resulting change in circumstances may impact financial reporting, particularly with respect to the measurement of assets. This is especially problematic when using the discounted cash flow model to value assets because of the impact that COVID-19 may have on the expected future cash flows. The assumptions and inputs used in the fair value determination may also be impacted by COVID-19.

The auditor should be cognisant of whether the requirements of the financial reporting standards have been complied with in preparing the financial statements. The auditor should pay close attention to indicators of impairment of long-lived assets, such as property, plant and equipment, goodwill and other intangible assets and investments and shorter-term assets such as inventory and tax assets.

References and additional useful resources

- Malaysian Institute of Accountants: COVID-19: Frequently Asked Questions on Auditing
- Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing

Subsequent events

The auditor should consider the impact of events that occur after the date of the financial statements, particularly the financial reporting and disclosure requirements for the material impairment of assets as a result of COVID-19.

Consider carefully the situation in the context of the requirements of IAS 10, *Events After the Reporting Period* (IAS 10), as follows:

- If conditions exist at the end of the reporting period and an impairment indicator has been identified, consider whether an impairment test has been performed based on reasonable and supportable assumptions reflecting the conditions existing at the end of the reporting period.
- Are there indicators of impairment of assets such as equipment, buildings, or finite-lived intangible assets? If yes, consider if events have triggered the need for an impairment test.
- Are held-for-use assumptions of long-lived assets still appropriate? If the company changes its assertion about an asset group and concludes it meets the held-for-sale criteria, the order of impairment testing differs.
- Are there indications that it is more likely than not that goodwill or an indefinite intangible asset is impaired? If yes, an interim impairment test is required.

References and additional useful resources:

- IRBA Newsletter – 20 March 2020: Implications of the COVID-19 Outbreak on Audits and Auditors
- CAQ COVID-19 resource: Key auditor and audit committee considerations

Non-compliance with laws and regulations

The auditor should consider making enquiries from members of management about their knowledge of any actual or possible non-compliance with laws and regulations that could have a material effect on the financial statements and consider the impact of this on the financial reporting and other reporting responsibilities of the auditor that may be triggered. Here, the auditor is reminded of external reporting duties that may arise out of:

- Section 360 of *the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)* (the IRBA Code) relating to non-compliance with laws and regulations (NOCLAR);
- Section 45 of the Auditing Profession Act, No. 26 of 2005, relating to the reporting of Reportable Irregularities to the IRBA;

- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*; and
- Other reporting obligations imposed by, for example, the JSE Limited, the Financial Sector Conduct Authority, the Financial Intelligence Centre and the Council for Medical Schemes.

Examples of possible NOCLAR specific to COVID-19 include:

- Breaches of specific lockdown regulations;
- Inappropriate procedures followed to action restructuring plans including retrenching of employees and other labour law-related issues;
- Breaches of capital requirements for banks, as required by Basel III;
- Fraudulent actions to inflate results, for example, overly aggressive assumptions, misleading disclosures, and inappropriate support of the going concern basis of accounting;
- Tax evasion or manipulation of tax returns to reduce the financial burden on the entity;
- Breach of Companies Act requirements; and
- Failure to report offences under for example the Financial Intelligence Centre Act and Prevention and Combating of Corrupt Activities Act.

Completeness and accuracy of disclosures

The auditor should pay close attention to the relevant disclosures required to be made in the financial statements in ensuring that they are complete in terms of complying with the financial reporting framework and accurate in presenting the actual facts and circumstances of the entity.

References and additional useful resources:

- The Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing
- Malaysian Institute of Accounts: COVID-19: Frequently Asked Questions on Auditing
- Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB): The Impact of Coronavirus on Financial Reporting and the Auditor’s Considerations
- The Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit: A Guidance for Auditors.

3. What impact does Covid-19 have on the auditor's determination of materiality?

The auditor is required to apply the concept of materiality appropriately in planning and performing the audit[14].

Materiality is a user-orientated concept and recognises that some matters, either individually or in aggregate are important to users in making economic decisions based on the financial statements. In determining materiality, the auditor assesses what is important to users in terms of influencing the economic decisions taken on the basis on the financial statements. Materiality can also be described as a measure of user's tolerance for misstatement. The auditor's determination takes into account both quantitative and qualitative factors.

When setting materiality, the auditor determines:

- The metrics that influence the economic decisions of users as a group, including the metric that will serve as the benchmark;
- The amounts of the metrics; and
- Materiality for the financial statements as a whole, considering relevant metrics and qualitative factors.

Due to the significance and pervasiveness of the impact of COVID-19, potentially all of these steps could be affected when determining materiality for financial reporting periods impacted by Covid-19. Furthermore, Covid-19 may result in significant adjustments made to and/or non-standard disclosures being included in the financial statements, which may be important to the users of the financial statements.

The above factors are likely to have an impact on the auditor's identification of an appropriate benchmark, determination the amount of the metrics and determination of materiality for the financial statements as a whole.

Determining materiality and performance materiality when planning the audit

The auditor's determination of materiality is a matter of professional judgement and is affected by the auditor's perception of financial information needs of users of financial statements[15]. In determining

[14] International Standard on Auditing (ISA) 320, *Materiality in Planning and Performing an Audit*, paragraph 8.
[15] ISA 320.4.

materiality, the auditor often applies a percentage to a chosen benchmark, such as profit before tax, total revenue, gross profit or total expenses[16].

The financial implications of Covid-19 on the financial position and financial performance of the entity may impact the appropriateness of a historically selected benchmark used by auditors in determining materiality. In determining an appropriate benchmark to be used, the auditor may encounter the following scenarios:

- A reduced asset base as a result of significant impairments being recorded;
- An entity reflecting a net liability position;
- Significantly reduced revenue as a result of a decline in sales;
- An entity reflecting a net loss before tax; and/or
- Abnormal expenditure being recognised, including impairments, restructuring costs and retrenchment packages resulting in a distorted net profit before tax.

The auditor should carefully consider the particular circumstances of the entity in determining the most appropriate benchmark, while being cognisant of the anticipated changes in the user's expectation in relation to materiality, as well as the stability of the benchmark selected. Depending on the particular circumstances of the entity, benchmarks that the auditor may consider appropriate include:

- Normalised profit before tax;
- Average profit before tax of prior financial years;
- Normalised gross profit;
- Average gross profit of prior financial years;
- Total revenue;
- Normalised total expenses;
- Average total expenses of prior financial years;
- Total assets; or
- Total equity.

An adjustment made as a result of Covid-19 may be considered an abnormal item that should be removed from the chosen benchmark in order for the benchmark to be normalised. This includes,

[16] ISA 320.A4 and A5.

among others, government assistance received, losses incurred during lockdown, impairments recognised and retrenchment and other restructuring costs.

Forecast figures of any of the above benchmarks could also be used by the auditor in determining materiality. If forecast figures are used, the auditor should consider that the forecasts include the anticipated impact of Covid-19.

The auditor is required to exercise professional judgement when determining materiality. Qualitative factors that may affect the identification of an appropriate benchmark include:

- The elements of the financial statements, for example assets, liabilities, equity, revenue and expenses;
- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused;
- The nature of the entity, where the entity is in its life cycle and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed; and
- The relative volatility of the benchmark[17].

In terms of the percentage that the auditor applies to the benchmark, auditors are cautioned in reducing materiality for the financial statements as a whole because of an audit risk that is assessed as high. As mentioned above, overall materiality is based on users' information needs. Overall materiality is not based on the level of audit risk. Lowering overall materiality implies that the decisions of the users of the financial statements are affected by audit risk rather than the information contained therein, and that additional work will be performed by the auditor to ensure that no material misstatements exist in the financial statements. The appropriate manner in which to address audit risk is to set performance materiality at the class of transaction or account balance level at a lower level to ensure that sufficient work is performed to detect any misstatements, without having to reduce the overall materiality level[18].

In response to the impact of Covid-19 and the potentially increased audit risk, the auditor should consider applying a lower threshold in determining performance materiality, as considered appropriate to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole[19].

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17 ISA 320.A4.

18 The IFAC *Guide to Using International Standards on Auditing in the Audits of Small- and Medium- Sized Entities Volume 2 Practice Guidance*, Chapter 6: Determining and Using Materiality, paragraph 6.4.

19 ISA 320.9.

Furthermore, depending on the potential impact of Covid-19 on the financial position and financial performance of the entity, the auditor should consider whether it is appropriate to use historical financial performance as the base, or whether forecasts are more appropriate.

Specific materiality

As a result of Covid-19, the auditor may conclude that there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Here, the auditor should determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures[20]. This is referred to as specific materiality.

Examples of such particular classes of transactions, account balances or disclosures may include:

- Particular line items in the financial statements that relate to regulatory requirements or debt covenant requirements;
- Revenue and the estimates and judgements involved in the recognition and measurement thereof in accordance with International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*;
- Financial instruments and the estimates and judgements involved in the recognition, measurement and disclosure of financial instruments in accordance with IFRS 9, *Financial Instruments;*
- Leases and the recognition and measurement of leases in accordance with IFRS 16, *Leases.* This includes considerations relating to onerous contracts;
- Amounts recognised in the financial statements as a result of any government assistance received;
- Any non-current assets held for sale or discontinued operations reflected in the financial statements, in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* that may have arisen as a result of Covid-19;
- Contingent assets and/or liabilities;
- Other measurements and/or disclosures of items that will be of particular relevance to the users in relation to Covid-19:
    - Significant accounting adjustments processed;

[20] ISA 320.10.

- Disclosures in relation to fair value measurements;
- Impairment considerations for financial and non-financial assets;
- Disclosures about material uncertainty relating to the ability of the entity to continue as a going concern; and
- Subsequent events disclosures.

Revised materiality

The auditor is required to revise materiality in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount/(s) initially[21]. In light of the fluid situation that entities find themselves in, with changes experienced on a daily basis, the auditor may need to revise the materiality as a result of changes in circumstances that occur while performing the audit. This may include:

- Changes to the circumstances of the entity as a result of:
  - New information that becomes known to the auditor, such as the announcement of financial assistance schemes established by government or the successful application for tax relief measures; or
  - Decisions taken my management, for example in terms of restructuring and other cost cutting initiatives; or
- Changes to the auditor's understanding of the entity and its operating environment.

If the auditor concludes that a lower materiality than that initially determined is appropriate, the auditor should determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate[22].

Revised risk assessment and the impact on materiality

If the auditor has revised the risk assessment as required by ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, the auditor should also consider whether materiality may also need to be revised.

[21] ISA 320.12.
[22] ISA 320.13.

References and additional useful resources:

- COVID-19 Pandemic: Guidance Notes on the Implications on Auditing issued by the Institute of Chartered Accountants of Sri Lanka
- The Impact of COVID-19 on Audit: A Guidance for Auditors issued by Institute of Chartered Accountants of Pakistan

4. How is the auditor’s evaluation of the design of the controls and the determination of whether they have been implemented impacted by COVID-19 and does this affect the identification and assessment of risks of material misstatement?

In terms of the auditor’s evaluation of the design of the controls and determination of whether the internal controls have been implemented, the auditor may be faced with two different scenarios to consider, as follows:

COVID-19 did not impact the ability of the entity to implement internal controls during the period under review

In this scenario, the financial period under review ended after the start of the national lockdown and therefore the entity was able to continue implementing the internal controls designed for normal operation of the business throughout the period. It is therefore unlikely that the control risk will be heightened as a result of COVID-19 and as such, will have minimal impact on the auditor’s identification and assessment of RoMM.

In the event that the audit is performed during the lockdown period, the auditor may experience difficultly in performing risk assessment procedures as well as further audit procedures, including tests of controls, due to the restrictions in place. Refer to the section on the execution of the audit for guidance on the impact of COVID-19 on the nature, timing and extent of audit procedures as well as obtaining sufficient appropriate audit evidence.

With specific reference to the difficulties that may be experienced in performing tests of controls, to the extent that the auditor is not able to obtain sufficient appropriate audit evidence in relation to the operating effectiveness of the controls, the auditor should amend the nature, timing and extent of the planned substantive procedures to obtain sufficient appropriate audit evidence.

To the extent that the auditor is not able to obtain sufficient appropriate audit evidence to support the audit opinion, the auditor is required to modify the audit opinion in accordance with ISA 705 (Revised). The inability to perform specific procedures does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence from performing alternative procedures[23].

COVID-19 impacted the ability of the entity to implement internal controls during the period under review

As a result of the lockdown, where possible, employees are working remotely, which is not part of the usual routine and may result in changes to both the design and implementation of the internal controls. Although this will only possibly impact a portion of the financial year, the auditor should ensure that a thorough understanding of the entity and its environment, including the internal controls implemented during the lockdown period, be obtained and documented. It is possible, depending on the extent of changes in the system of internal control, that the entity will have two systems of internal controls during the financial reporting period. The auditor would need to obtain the required understanding of each system of internal control and consider the impact of this when identifying and assessing RoMM, in accordance with ISA 315 (Revised).

It is possible that the auditor places reliance on the internal controls for only a portion of the financial period under review. Nevertheless, the auditor is still required to obtain sufficient appropriate audit evidence upon which to base the audit opinion.

The auditor is alerted to a situation where it may not possible to perform walkthrough testing on specific internal controls at a specific point in time. Here, audit evidence obtained subsequent to year end is not going to provide the auditor with evidence that the control was implemented during the period of reliance. In the event of the lockdown being further extended, the auditor may be able to perform walk-throughs for manual internal controls through the use of technology, but this may not be possible for IT controls. This may include the auditor holding a videoconference with the client, whereby the auditor is able to remotely observe the entity implementing an internal control. The auditor should take these practical considerations into account in developing the audit approach.

The auditor should then be alert to the heightened control risk over this period in performing the risk assessment procedures and in designing the planned audit approach.

[23] ISA 705 (Revised), paragraph A9.

The internal control environment of the entity subsequent to the lockdown period may also be considerably different to that implemented prior to COVID-19. The after-effects of COVID-19 may result in staff shortages, work force interruptions due to illness, retrenchments, employees continuing to work remotely, and so on, all of which may impact the entity's internal control environment. The auditor should be alert throughout the audit process to the impact that this has on the auditor's assessment of the internal control environment.

References and additional useful resources:

- AICPA, Consequences of COVID-19: Potential Auditing Challenges
- Institute of Chartered Accountants of Pakistan, The Impact of COVID-19 on Audit: A Guidance for Auditors
- Journal of Accountancy: Tips for Auditing with Changed Controls during the Pandemic

5. What is the impact of COVID-19 on the auditor's consideration of laws and regulations?

ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements (ISA 250 (Revised)),* deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. ISA 250 (Revised) distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:

a. The provisions of those laws and regulations **generally recognised to have a direct effect** on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations; and

b. Other laws and regulations that **do not have a direct effect** on the determination of the amounts and disclosures in the financial statements, but **compliance with which may be fundamental** to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for e.g., compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements[24].

In applying ISA 250 (Revised) the objectives[25] of the auditor are:

- To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations **generally recognised to have a direct effect** on the determination of material amounts and disclosures in the financial statements;
- To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that **may have a material effect** on the financial statements; and
- To respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

The impact of COVID-19 on each of the auditor's objectives regarding the consideration of laws and regulations is considered.

Compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements

Certain laws and regulations are well established, known to the entity and within the entity's industry or sector and also relevant to the entity's financial statements. For example, provisions in the South African Income Tax Act, No. 58 of 1962 (Income Tax Act) and the Value Added Tax Act, No. 89 of 1991 may be directly relevant to specific assertions in the financial statements. When performing audit procedures to test the completeness and accuracy of the income tax expense in the statement of comprehensive income an entity will need to ensure that there is compliance with the provisions of the Income Tax Act.

COVID-19 has resulted in many directives and other forms of communication relating to tax regulations being issued by the South African government in a short space of time. The amendments and new requirements are in most cases complex, and need to be implemented in a short space of time. Examples of COVID-19 tax implications may be found on the SAICA COVID tax webpage.

The risk of material misstatements due to unintentional errors or misinterpretations, or intentional manipulation of calculations in order to favour the entity have increased. The auditor must ensure that sufficient appropriate audit evidence regarding compliance is obtained.

24 ISA 250(R).6.
25 ISA 250(R).11.

Non-compliance with other laws and regulations that may have a material effect on the financial statements

As a result of the Covid-19 pandemic, the entity's business operations may be disrupted and there may be various legal and compliance considerations that entities need to consider that do not have a direct effect on the determination of material amounts and disclosures in the financial statements. However, compliance with these other laws and regulations may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties; non-compliance with such laws and regulations may therefore have a material effect on the financial statements.

Entities need to analyse the risks and impact associated with the applicable laws and regulations affecting the entity during the period of COVID-19. Failure to do so may result in challenges in business continuity (going concern), criminal and civil prosecutions against the entity and its directors, enforcement action taken by regulators, such as fines and litigation, and possibly eventual closure of the business in cases of significant non-compliance. Some of the categories of laws and regulations that entities need to comply with include:

- Reporting deadlines imposed by regulatory authorities such as the JSE Limited, the SARB, Prudential Authority, Estate Agencies Affairs Board, Companies and Intellectual Property Commission (CIPC), FSCA, Legal Practice Council etc.
- Specific laws and regulations brought into effect by government as a result of the pandemic such as the Disaster Management Act, 2002 and the accompanying regulations issued by the government.
- Laws and regulations arising from the Occupational Health and Safety Act, 1993.
- Contractual obligations which may arise as a result of COVID-19 should the pandemic be considered a *force majeure* event.

With regard to these laws and regulations, the auditor should perform audit procedures to help identify instances of non-compliance that may have a material effect on the financial statements. Depending on the circumstances relevant to the entity, the auditor may identify an increased risk of the entity not complying with laws and regulations. Generally, the procedures performed to identify instances of non-compliance include:

- Enquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations.
- Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

Examples of procedures that the auditor may perform under each category of laws and regulations identified above, in order to address the risk of non-compliance with those laws and regulations, are as follows:

a. <u>Risk of non-compliance with reporting deadlines imposed by regulatory authorities</u>

Auditors are required to proactively discuss these matters with clients to understand whether there is an impact on the client's reporting timetable and the audit processes. Auditors are required to consider the following:

- Auditors should ensure that they keep up to date with new legislation, temporary pronouncements by government and other regulators, and their effective dates. For example, the auditor should be aware of the regulations issued by the Department of Health and Department of Trade and Industry in as far as these will impact the audit client.
- Auditors should enquire whether all relevant statutory requirements issued by the various relevant regulators have been complied with by audit clients.
- Auditors should consider whether the client has communicated, on a timely basis, with the relevant regulatory authority.

b. <u>Risk of non-compliance with specific laws and regulations brought into effect by government as a result of the pandemic such as the Disaster Management Act, 2002 and the accompanying regulations issued by the government</u>

Initial national lockdown period (27 March - 30 April 2020)

During the initial national lockdown period, all entities had to cease operations, except for any entity involved in the manufacturing, supply, or provision of an essential good or service. Entities that were exempted from this regulation were required to seek approval from the government in order for them to trade during the national lockdown period and were to have obtained a certificate from the CIPC confirming that they fell within the exemption.

False applications by entities may result in the applications being regarded as fraudulent, which could result in criminal prosecution and sanction.

Depending on the risk assessment, auditors may consider performing the following audit procedures:

- Using their knowledge and understanding of the entity to assess whether the entity is involved in the manufacturing, supply or provision of an essential good or service.

- Enquire from those charged with governance as to whether the entity should have been operating or closed during the national lockdown.
- Review the certificate obtained from the CIPC BizPortal website
- Perform independent searches on the CIPC BizPortal platform on whether the entity is classified as providing an essential good or service.
- For those entities that operated in industries with specific requirements during the national lockdown period, verify that those requirements have been adhered to by the entity.
- Sending out legal confirmations to the entity's legal representatives to confirm whether there are any outstanding claims against the entities from regulators or other parties relating to unlawful trading during the national lockdown period.

Post 1 May 2020 national lockdown period

Government adopted a staggered multi-phased approach to relax the initial national lockdown requirements as of 1 May 2020. For each phase (level), there are implications on the operational activities of the various entities. Auditors need to ensure that they obtain an understanding of the applicable regulations and how non-compliance may have an effect on the financial statements.

c. Laws and regulations arising from the Occupational Health and Safety Act, 1993

The Occupational Health and Safety Act, 1993 (OHSA) imposes a duty on employers to ensure, as far as reasonably practicable, a safe and healthy working environment for their employees. Additionally, the OHSA provides that every employer shall conduct its operations in such a manner as to ensure, as far as reasonably practicable, that persons other than those in its employment that may be directly affected by its activities are not exposed to hazards to their health or safety. The auditor needs to obtain an understanding of this category of laws and regulations as non-compliance during the COVID-19 period could result in litigation. This risk is heightened during the COVID-19 period as a result of the extra measures entities need to put in place and the risk of non-compliance that could result in operating licences being revoked, and so on. During the COVID-19 pandemic, the employer needs to demonstrate some of the following processes to ensure the safety of persons that come into contact with its activities, among others[26]:

[26] Refer to the SAICA COVID webpage https://www.accountancysa.org.za/covid-19/saica-resources/covid-19legislation-ethics-and-governance/ for further information on the occupational health and safety measures required in workplaces, as well as to the Department of Employment and Labour's webpage http://www.labour.gov.za/.

- Restricting access to its premises according to the requirements stipulated in the government regulations.
- Having sanitisation facilities.
- Having ventilation systems that ensure that the air breathed by staff and other persons do not endanger their safety.
- Recording access to their workplace for both employees and other stakeholders.

Failure to undertake such reasonable steps by the entity may result in litigation and claims against the entity.

Depending on the risk assessment process, some of the audit procedures that auditors may consider performing include:

- Using live video technology to observe some of the safety measures put in place by the entity and whether these are consistent with the government regulations.
- Enquiring with the relevant personnel responsible for safety and occupational health within the entity and whether they are aware of any COVID-19 cases recorded on the client premises. This will assist the auditor in determining that the client has put the required measures in place and where COVID-19 cases have been identified, to ensure that the client has taken the appropriate steps.
- Inspecting the log/records of matters reported relating to the COVID-19 pandemic. For example, employees who are in isolation after travelling abroad, employees that have fallen ill during this period, etc.
- Inspecting communications issued by the entity of policies revised as a result of the COVID-19 pandemic and the national lockdown.
- Enquiring with the relevant personnel, management and those charged with governance on whether there have been any claims lodged against the entity for not meeting the safety requirements per the regulations.
- Reviewing minutes of management meetings for claims instituted against the entity.
- Inspecting correspondence with the relevant regulatory authorities and correspondence from legal counsel.
- Obtaining written representations from management to provide the audit evidence of management's knowledge of identified or suspected non-compliance.

d. Contractual obligations which may arise should the pandemic be considered as a *force majeure* event

COVID-19 may threaten the ability of parties to meet their obligations under the various contractual agreements that they have entered into. Therefore, the entity or counterparties may find it difficult to satisfy their obligations within the specified contractual period or may not be able to meet their obligations at all.

Some of the audit procedures that auditors may perform include:

- Enquiring with management, those charged with governance and the entity's legal officers to obtain an understanding of:
    - Steps taken by the entity to assess and mitigate their contractual risks as a result of the COVID-19 pandemic and the national lockdown measures set in place by the government.
    - Contracts affected by the COVID-19 pandemic which may result in a breach of an agreement by the entity/counterparties.
    - Contracts where the entity/counterparties have relied on the/a *force majeure* clause in order to exempt themselves from meeting their obligations while the national lockdown continues.
    - Contracts where the entity/counterparties have suspended or terminated their obligations in order to comply with the national lockdown regulations.
- Sending out legal confirmations to the entity's legal representatives to confirm whether there are any outstanding claims against the entity from other parties where there have been breaches of an agreement.
- Performing audit procedures, such as obtaining legal advice from legal experts, to verify that the contracts have been accounted for correctly and that the appropriate disclosures have been made in the financial statements.
- Considering the impact of any breaches of an agreement on the ability of the entity to continue as a going concern.

Responding appropriately to identified or suspected non-compliance with laws and regulations identified during the audit

If the auditor identifies or suspects that there may be non-compliance, the auditor should discuss the matter with management, and where appropriate, those charged with governance. If sufficient information about the suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion in terms of ISA 705 (Revised).

Auditors should consider if there is any non-compliance with laws and regulation (NOCLAR) per section 360 of the IRBA *Code of Professional Conduct for Registered Auditors* (Revised November 2018).

Auditors may also need to consider any reporting obligations that may arise from challenges posed by the COVID-19 pandemic (for example, missed deadlines for the submission of audited financial statements), that may trigger obligations to report Reportable Irregularities in terms of section 45 of the Auditing Profession Act, 2005.

Auditors should also consider obtaining legal advice to determine the appropriate course of action. For example, there may be requirements to report the identified non-compliance to certain regulatory bodies.

The non-compliance with laws and regulations could result in litigation and claims against the entity that may have a material effect on the financial statements of the entity and may be required to be disclosed.

Regarding litigation and claims arising from the COVID-19 pandemic, the auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, in compliance with ISA 501, *Audit evidence – specific considerations for selected items*.

In addition, the auditor should follow the requirements stipulated in the South African Auditing Practice Statement 4 (SAAPS 4) (Revised 2019), *Letters of specific inquiry to the entity's external legal practitioner regarding litigation and claims involving the entity.*

If the auditor is unable to obtain sufficient appropriate audit evidence about the entity's litigations and claims, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

References and additional useful resources:

- IRBA Newsletter - 20 March 2020: Implications of the covid-19 outbreak on audits and auditors
- IRBA Communique - 26 March 2020: Implications of the COVID-19 outbreak on audits, audit firms and regulatory requirements

Execution of the audit

6. How will the nature, timing and extent of procedures be affected?

At engagement level, auditors should exercise professional scepticism during this period as there is an increased risk of fraud and error, including fraudulent financial reporting. Some of the areas that the auditor should consider placing more focus on include:

- The financial statement closing process (in particular journal entries and other adjustments made);
- The auditor's evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made;
- The auditor's conclusion on whether sufficient appropriate audit evidence has been obtained;
- The presumed risk of fraud in revenue recognition, which may now be heightened[27]; and
- Account balances and class of transactions involving significant accounting estimates made by management. Management assumptions, including projected cash flows, used in the accounting estimates may be affected by the impact of COVID-19. The principles and procedures prescribed by ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures,* can be used by the auditors in this regard.

Evaluating the operating effectiveness of controls

The impact of COVID-19 on business may have forced a situation where the internal control environment in many organisations has changed to accommodate for remote working. In such circumstances, auditors may need to evaluate how much reliance can be placed on those controls that were effective for the portion of the year, pre-lockdown. Where the design, implementation and execution of controls have changed as a result of the lockdown and the auditor decides to rely on these amended controls, the auditor must ensure that a sufficient understanding of the design and implementation of the amended controls is obtained.

Evaluating the effectiveness of both the existing and amended controls may not be efficient for the purposes of completing the audit. Working remotely could pose challenges for the auditors in executing some of the audit procedures to evaluate the operating effectiveness of the controls as traditional procedures such as inspecting documents and observing processes may not be possible. As far as

[27] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 27.

possible, auditors should make use of technology – particularly video technology – to perform some of the audit procedures to test the operating effectiveness of controls.

Regarding the amended controls, the auditor may not have a basis for determining whether the controls are expected to operate effectively as there may be no previous track record. It would be vital in this case for the auditor to obtain an understanding of how well the entity prepared the relevant staff for the new control environment. This could include assessing the following:

- Inspection of any communication by management to staff members;
- Enquiries of various employees on their understanding of some of the key controls that have changed; and
- Reviewing training manuals and other records on the new control environment.

Irrespective of whether or not the auditor plans to evaluate the operating effectiveness of controls, an understanding of the internal control environment still needs to be obtained. Where the auditor will not be relying on the internal controls substantive procedures will be necessary. This is likely to result in increased sample sizes and more tests of details rather than substantive analytical procedures. The current environment is unique and it may not be practical for auditors to obtain sufficient appropriate evidence from substantive analytical procedures alone. Consideration will need to be given to the reliability of the non-financial information that the auditor has access to in order to identify trends.

For additional guidance on the evaluation of the operating effectiveness of controls, refer to the FAQ: *How is the auditor's evaluation of the design of the controls and the determination of whether they have been implemented impacted by COVID-19 and does this affect the identification and assessment of risks of material misstatement?*

Communication with the client and those charged with governance

Auditors will need to engage with their clients and those charged with governance to ensure that:

- There are clear expectations as to the level of disclosure they expect to see in the financial statements to communicate the risk and impact of COVID-19 on the company;
- Companies are aware of and understand that it is important that auditors have sufficient time to obtain sufficient appropriate evidence;
- Changes to the initial audit plan and the significant risks identified are communicated to those charged with governance, including the risks relating to the ability of the entity to continue as a going concern; and
- The auditor needs to enquire from the client and those charged with governance as to how they intend to provide access to the information needed by the auditor.

Also refer to the FAQ: *How does the auditor overcome the inability to physically inspect original documents in order to obtain sufficient appropriate audit evidence and maintain the desired level of audit quality?* for further considerations.

References and additional useful resources:

- Institute of Chartered Accountants of India: Impact of Coronavirus on financial reporting and the auditor's consideration
- Accountancy Europe: Coronavirus Crisis: Implications on Reporting and Auditing
- IAASB Staff alert: Highlighting areas of focus in an evolving audit environment due to the impact of COVID-19
- FRC (UK): Guidance on Audit Issues Arising from the COVID-19 (Coronavirus) Pandemic
- Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit – A Guidance for Auditors
- The Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing
- Malaysian Institute of Accounts: Covid-19: Frequently Asked Questions on Auditing

7. How does the auditor overcome the inability to physically inspect original documents in order to obtain sufficient appropriate audit evidence and maintain the desired level of audit quality?

The auditor must design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence[28].

In terms of obtaining audit evidence, during lockdown the auditor is limited in terms of physically inspecting original documents, especially in those instances where clients still maintain paper records, which brings into question the reliably of audit evidence, especially in instances when audit evidence is electronically submitted to the auditor.

Auditors may be able to obtain client-prepared copies or scans of key records, but they need to consider the authenticity of those records and perhaps perform additional audit procedures when they have

[28] ISA 500, paragraph 6.

reason to doubt that those records are reliable and authentic. It is crucial that auditors apply professional scepticism and remind their teams to do so at all times. Auditors should be cognisant of the need to prepare and assemble audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit to understand the audit evidence obtained[29]. This includes audit documentation obtained from the alternative procedures performed during the lockdown.

Auditors may consider alternative ways to obtain sufficient appropriate audit evidence such as the following:

- Confirming external information directly with third parties;
- Considering greater use of technology in sharing information, hosting meetings with the client staff and in the performance of the audit;
- In respect of electronic documents, reviewing file properties to determine when modifications were made on the file;
- Obtaining an understanding of the controls management have placed over the generation of information and where relevant, determine if the controls are operating effectively. Where it is not possible to determine the operating effectiveness of controls, auditors should consider changing the audit approach and developing alternative procedures;
- Obtaining read-only access to the client systems and compare the information provided by management to that obtained by the auditors; and
- Requesting the client to use digital signatures which are password protected on documents when transferring the documents to the auditor electronically.

In cases where auditors are unable to access client records, they have to inform clients that the audit cannot be completed until records can be accessed. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor will have to modify the audit opinion in accordance with ISA 705 (Revised).

[29] ISA 230, *Audit Documentation*, paragraph 8.

References and additional useful resources

- AICPA: Consequences of COVID-19: Potential Auditing Challenges
- The Malaysian Institute of Chartered Accountants: COVID-19: Frequently Asked Questions on Auditing
- The Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing

8. What is the impact of the inability of the auditor to obtain sufficient appropriate audit evidence through attendance at physical inventory counting?

ISA 501, *Audit Evidence – Specific Considerations for Selected Items* (ISA 501), states that if inventory is material to the financial statements, the auditor shall obtain sufficient appropriate evidence regarding the existence and condition of inventory by attendance at physical inventory counting, unless impracticable[30]. Due to the lockdown and the social distancing restrictions, auditors may encounter the following challenges with respect to inventory counts (these challenges relate to entities with financial year ends that fall within the lockdown period):

- The entity may have shut down its premises due to the lockdown as that entity is not deemed to be providing essential services.
- Entities may be classified as providing essential services, therefore are able to conduct inventory counts; however, the auditor is unable to attend the count due to the lockdown restrictions applicable to the auditor.

Entities not providing essential services

Where an auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date and perform audit procedures on intervening transactions[31]. Upon rescheduling of the inventory counts, the auditor may consider the following audit procedures:

- Performing additional audit procedures on inventory roll-forwards.

[30] ISA 501, paragraph 4.
[31] ISA 501, paragraph 6.

- Performing additional procedures to obtain assurance that client inventory locations have in fact been locked down for a period of time. This might include obtaining live feeds of security camera footage taken of the retail locations and warehouses during that time and reviewing shipping and receiving records during that time to ensure movement was minimal.

Entities deemed to be providing essential services

Entities providing essential services may have financial year end reporting dates that fall in the midst of the lockdown. These entities may be in a position to conduct inventory counts during the lockdown period but the auditors of these entities will not be able to attend the counts, as the auditors are not regarded as essential service providers per South African lockdown regulations. In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example where inventory is held in a location that may pose threats to the safety of the auditor[32]. It is clear that in the current scenario in South Africa, COVID-19 poses a threat to the safety of the auditor and results in a case where it is impracticable for the auditor to attend the inventory counts.

Where it is impracticable for the auditor to attend a physical inventory count, the auditor may perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. Such procedures may include:

- Utilising video technology to observe the inventory counts performed by the entity. Such technology will enable the auditor to direct proceedings during the counts as the auditor has direct access to the staff. Examples include:
  - Using live video feeds from the entity's own security camera system where access is given to the auditor for purposes of the inventory count;
  - Utilising video technology products such as Zoom, Skype and Microsoft Teams, among others.
- Where the auditor uses technology to observe the inventory count, the auditor will need to perform procedures to test the authenticity and integrity of the video footage and to address any additional risks posed by conducting the inventory counts remotely.
- Inspection of documentation of the subsequent sale of specific inventory items purchased prior to the physical inventory counting.
- Reliance on cyclical counts.
- Obtaining direct assistance from internal auditors or using the work of internal auditors.

[32] ISA 501, paragraph A12.

- For entities that do not have tight reporting deadlines, the auditor may consider rescheduling the inventory count to a subsequent date when the lockdown restrictions have been relaxed. In such cases, the auditor will have to perform additional procedures to review the inventory roll-forwards for the intervening transactions.

If the auditor is unable to obtain sufficient appropriate evidence

Where it is not possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures, ISA 705 (Revised) requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.

References and additional useful resources:

- AICPA: FAQs – Audit Matters and Auditor Reporting Issues Related to COVID-19
- The Malaysian Institute of Chartered Accountants: COVID-19: Frequently Asked Questions on Auditing
- IRBA: Implications of the COVID-19 Outbreak on Audits and Auditors
- Journal of Accountancy: How auditors can test inventory without a site visit
- Australian Auditing and Assurance Standards Board: Additional COVID-19 FAQs for Auditors
- ICAEW: Coronavirus (COVID-19): Considerations for inventory audit testing
- ICAS: ICAS issues updated guidance for auditors on attendance at stocktakes during the coronavirus outbreak

9. With the lockdown that has been imposed in South Africa, what is the impact of the inability of the auditor to physically verify fixed assets?

Alternative procedures to verify assets

Auditors may face significant challenges conducting their audits due to difficulties accessing client premises to perform procedures to physically verify fixed assets (also referred to as property, plant and equipment). Therefore, alternative procedures to determine the existence of fixed assets and their condition may need to be performed depending on specific circumstances.

Auditors could perform audit procedures with reference to documentary evidence and by evaluation of the internal controls, for example. Auditors may also consider other forms of evidence to test the existence of the fixed assets. For example, where an entity has machinery that produces widgets, the production of widgets at normal capacity may serve as evidence that the plant exists and has not been damaged. The auditor may need to obtain evidence to corroborate that the client possesses the rights associated with ownership of the fixed assets and that there is no contradictory information obtained as a result of the alternative procedures performed.

Video technologies may also be utilised by auditors to physically verify the existence of fixed assets if the entity has employees on its premises. These may include technologies such as Zoom, Skype and Microsoft Teams, among others. These technologies may also be extended to the audit procedure of physically verifying employees of the entity.

Fixed assets in existence at the beginning of the financial period

Fixed assets that were in existence at the beginning of the financial reporting period according to the entity's records may be verified against the information obtained in prior years. ISA 500, *Audit Evidence* (ISA 500), states that, "while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for examples, previous audits …". The auditor should perform additional procedures to confirm whether there have been disposals or damages to the assets in the current period that have not been recorded. Such procedures could include:

- Enquiring from management and those staff members responsible for the custody of the fixed assets;
- Reviewing board minutes and/or the minutes of alternative forums/committees where the decision to sell/scrap the fixed assets would have been made; and
- Reviewing the additions made in the current year and ascertaining whether or not they represent replacements of old fixed assets.

Additions in the current financial period

Acquisition of new fixed assets and improvements to existing fixed assets during the current year audit may be verified with reference to supporting documents such as invoices, delivery notes, title deeds, the applicable customs documents, bank statements etc.

Additional procedures the auditor may consider include:

- Examining whether discrepancies identified during previous physical verifications conducted by the entity have been adequately dealt with;
- Reviewing board minutes of the entity and other correspondence for indications of significant asset acquisitions, disposals, or retirements. The auditor may also consider minutes of alternative forums/committees where these decisions would have been taken; and
- Making enquiries of key management and supervisory staff responsible for the custody of the fixed assets. The enquiries should include whether or not there any of the assets have been physically damaged. The auditor may request written confirmations and other correspondence to corroborate the condition of the fixed assets.

If the auditor is unable to obtain sufficient appropriate evidence

Where it is not possible to obtain sufficient appropriate audit evidence regarding the existence and condition of the fixed assets by performing alternative audit procedures, ISA 705 (Revised) requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.

References and additional useful resources

- FRC (UK): COVID-19 Bulletin, March 2020
- Australian Auditing and Assurance Standards Board: Additional COVID-19 FAQs for Auditors

10. Regarding group audits, how does COVID-19 impact the responsibility of the group engagement team in obtaining sufficient appropriate audit evidence that forms the basis of the group audit opinion?

For significant components, the auditor is required:

- To be involved in the component auditor’s risk assessment to identify significant risks of material misstatement of the group financial statements;
- Hold discussions with the component auditors on the component’s business activities that are significant to the group, as well as the susceptibility of the component to material misstatements of the financial information due to fraud or error; and

- Review the component's auditor's documentation of identified risks of material misstatements of the group financial statements[33].

COVID-19 and the lockdowns implemented by governments globally have resulted in travel restrictions that may adversely impact the ability of the auditor to obtain sufficient appropriate audit evidence. The situation is further aggravated by laws that prevent the transfer of information cross border.

The group engagement team is still responsible for obtaining sufficient appropriate audit evidence to form the group audit opinion. The group engagement team should consider the most effective and efficient approach to follow depending on the particular circumstances of each engagement, taking into account travel restrictions, the inability to obtain access to the component auditors, and the level of direct access that the group engagement team can obtain to the component. Based on these considerations, the group engagement team should consider whether it may be more effective and efficient for the audit procedures to be performed centrally by the group engagement team themselves rather than involving a component auditor.

If the auditor does not make use of component auditors and the restrictions imposed by COVID-19 result in the group auditor not being able to obtain sufficient appropriate audit evidence, the group engagement team should consider what additional and/or alternative procedures can be performed in obtaining the required audit evidence. In this instance, the guidance outlined above in relation to the execution of the audit may be considered by the group engagement team in performing the additional procedures.

If the auditor does make use of a component auditor and the group engagement team encounters restrictions on the auditor's ability to review the component auditor's audit work, the following may be considered in trying to overcome these restrictions:

- Hold discussions with the component auditors using videoconferencing facilities. This may be used to fulfil the requirements of the group engagement team to hold discussions required by ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) (*ISA 600)*,* but may also be useful in obtaining an understanding of the identified significant RoMM to the group financial statements, the component auditor's response to such risks and the results of the procedures executed.
- Request an electronic copy of the relevant documentation. If it is not possible for this information to be shared, the group engagement team may request remote access to the audit files.

[33] ISA 600, *Special Considerations − Audits of Group Financial Statements (Including the Work of Component Auditors),* paragraph 30.

- Request the component auditor to complete a detailed questionnaire that outlines the information that the group engagement team would usually focus on during a physical site visit.
- Request the component auditor to prepare a detailed memorandum for the group engagement team, indicating the identified significant RoMM to the group financial statements, the component auditor's response to such risks and the results of the procedures executed.
- Consider the outcome of previous physical site visits performed and the extent to which this will still be applicable in the circumstances.
- Consider past experience with the component auditor, including the extent to which the instructions from the group engagement team were followed, the group engagement team's conclusion in terms of whether the work of the component auditor was sufficient and the extent of the additional procedures performed by the group engagement team.

To the extent that the auditor is not able to obtain sufficient appropriate audit evidence to support the audit opinion, the auditor is required to modify the audit opinion in accordance with ISA 705 (Revised).

References and additional useful resources

- The Malaysian Institute of Chartered Accountants: COVID-19: Frequently Asked Questions on Auditing
- ICAEW: Coronavirus (COVID-19): Considering the Impact on Group Auditors
- Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit – A Guidance for Auditors

Concluding

11. Going concern

How are the auditor's considerations of the appropriateness of management's use of the going concern assumption impacted by COVID-19?

COVID-19 will have a significant impact on many entities which may result in an increased number of entities being placed in business rescue, or in other cases, liquidation. The general economic outlook in terms of the downturn of the economy and impact of this on the ability of the entity to achieve the forecast has historically been problematic. This has been further exacerbated by COVID-19. The auditor's evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements has suddenly become an even more difficult yet pertinent issue for the auditor to consider.

Auditors should be aware of the possibility of management window dressing any pre-existing going concern uncertainties as being due to COVID-19. The risk that the auditor should be alert to here is inadequate disclosure of the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions.

If events or conditions have been identified that 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 material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures[34], including:

- If management have not yet performed an assessment of the entity's ability to continue as a going concern, request that they do so. The assessment should specifically take into account the impact of COVID-19 on the ability of the entity to continue as a going concern.
- Evaluate management's plans for future actions in relation to events or conditions that cast doubt on the ability of the entity to continue as a going concern, including whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. This may entail enquiries of management as to its plans for future action, which may include:
  - Plans to liquidate assets. Although this option is available, it might not be the most attractive option because in the case of a forced sale, the fair value of an asset is not always realised. If the entity does plan to liquidate assets, the auditor should pay close attention to whether the

[34] ISA 570 (Revised), paragraph 16.

value that the entity expects to realise on the sale of the asset is not overly optimistic, but a realistic representation of the value that the asset with fetch in the current economic climate. The subsequent sales value actually realised by the entity is a good indication of the fair value of the asset.

  - Borrow money or restructure debt. In the South African environment, support has been made available, particularly in the small- and medium-sized entities (SME) space[35].
  - Reduce or delay expenditure. In terms of delaying expenditure various disaster management tax relief measures were announced by National Treasury, covering employees' tax, employment tax incentives (ETI) and provisional tax[36]. Cost-cutting measures that the entity may implement include salary cuts in the form of reduced working hours and even retrenchments, as well as considering not filling positions that are currently vacant, not undertaking any new capital expenditure, and reconsidering the timing of planned initiatives such as non-essential systems and software upgrades and non-core training activities. The successful application for such tax relief and implementation of other cost-cutting measures may have a positive impact on the cash flow of the entity and may be taken into account by the auditor in evaluating management's assessment of the entity's ability to continue as a going concern.
  - Increase capital.

  The auditor is reminded that enquiry alone is not sufficient to provide the auditor with sufficient audit evidence in reaching a conclusion on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

- Analyse the cash flow forecast that has been prepared by management. This includes:
  - Evaluating the reliability of the underlying data generated to prepare the forecast.
  - Determine whether there is adequate support for the assumptions underlying the forecast. COVID-19 has resulted in business not being carried on as usual. The auditor should therefore pay close attention to how management have adjusted the forecast for the potential impact of COVID-19 on the future outlook for the entity. Management should also take into account the impact of COVID-19 on other parties that impact the forecast, such as suppliers, customers and employees. The ability of the entity to achieve the forecast is dependent on the entity's ability to source the required goods, having the customer base that has both the desire and ability to purchase the goods and employees to facilitate the process. The ability of the entity to source

[35] Refer to the SAICA guide on assistance by government for further information on various government funding initiatives.

[36] Refer to SARS's Disaster Management Tax Relief FAQ's for Employees' Tax, ETI and Provisional Tax for additional information on the available relief.

and supply goods due to restrictions imposed during the lockdown may also impact the forecast. Likewise, for a service organisation, the ability of the entity to achieve the forecast is dependent on having a customer base to serve as well as employees with the required skills that are available to provide the service. In preparing the forecast, management should also be cognisant of the ability of the entity to recover the debts due to it.

  - The auditor may compare the prospective financial information for recent prior periods with historical results and prospective financial information for the current period with results achieved to date[37]. Since entities did not foresee the global pandemic that we find ourselves in, it is unlikely that such comparisons will provide meaningful evidence in relation to the reliability of management's forecasts. The auditor should remain alert to adjustments that need to be made as a result of the impact of COVID-19.

- Where management's assumptions include continued support by third parties, under the circumstances, written confirmation of such support for the third parties becomes critical. It is important to note that due to the heightened risk of the inappropriate use of the going concern basis of accounting in the preparation of the financial statements, it is unlikely that written confirmation alone will provide sufficient appropriate audit evidence. The auditor should consider what additional procedures to perform to obtain the audit evidence needed to support the auditor's conclusion. The auditor should also consider requesting management to provide evidence or sourcing the audit evidence themselves as to whether the third party providing the support has the financial ability to provide the necessary support should it become necessary.

- Consider whether any additional facts or information have become available since the date on which management made its assessment. In this consideration, the timing of when management performed the assessment becomes important. If management's assessment does not take into account the potential impact of COVID-19, management will need to re-perform the assessment to take into account all available facts and information. The auditor is required to consider all available facts and information up to the date of the auditor's report in concluding on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. COVID-19 has resulted in significant instability and the situation changes on a daily basis. In these fluid times, it is important for the auditor to pay close attention to ensuring that all new facts or information have been taken into account.

- Request written representation from management and, where appropriate, those charged with governance regarding their plans for future actions and the feasibility of these plans[38].

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37 ISA 570 (Revised), paragraph A18.
38 ISA 570 (Revised), paragraphs 16, A17−A20. This has been expanded on to include practical guidance.

In evaluating the results of the procedures performed and the audit evidence obtained, the auditor should exercise professional judgement, apply professional scepticism, maintain objectivity and challenge management's assessment in concluding on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and where required, the adequacy of the related disclosures made in the financial statements.

It is important to highlight that the assessment of the ability of the entity to continue as a going concern remains management's responsibility. It is not the auditor's responsibility to rectify a lack of analysis by management[39]. The auditor should, however, be cognisant of the difficulties that management may face in performing an assessment of the entity's ability to continue as a going concern because of the current level of uncertainty in the economic environment. It is expected that more financial statements will contain disclosures around material uncertainties relating to going concern. It is important that the financial statements, both in terms of the disclosures made by management and the information communicated by the auditor in the auditor's report, are not generic but rather provide the users of the financial statements with useful and meaningful information.

Auditors are alerted to the newsletter issued by the IRBA titled *The Impact of COVID-19 on the Auditor's Report: Going Concern* that further addresses matters that the auditor may consider with regard to the auditor's reporting responsibilities in the auditor's report.

References and additional useful resources

- IRBA Newsletter: The Impact of COVID-19 on the Auditor's Report: Going Concern
- Financial Reporting Council: COVID-19 Bulletin, March 2020
- Australian Accounting Standards Board and the Auditing and Assurance Standards Board joint FAQ: The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations
- Malaysian Institute of Accountants: COVID-19: Frequently Asked Questions on Auditing
- Journal of Accountancy: Going Concern Tips for Auditors during the Pandemic
- CAQ: Going Concern: Management and Auditor Responsibilities
- ICAEW: Coronavirus, Going Concern and the Auditor's Report
- Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit – A Guidance for Auditors
- AICPA: FAQs – Audit Matters and Auditor Reporting Issues related to COVID-19

[39] ISA 570 (Revised), paragraph A9 (extract).

- [The Institute of Chartered Accountants of India: ICAI Accounting and Auditing Advisory: Impact of Coronavirus on Financial Reporting and the Auditor's Consideration]
- [SAICA Educational Material 2 – Application Of IFRS Standards In Light Of The Coronavirus Disease (Covid-19) Uncertainty – Going Concern]

12. Subsequent events

What impact does COVID-19 have on the auditor's consideration of subsequent events?

The auditor is required to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework[40].

An important question that needs to be considered here is whether COVID-19 is considered to be an adjusting or non-adjusting event as outlined in IAS 10, for financial periods ending on 31 December 2019, 31 January 2020, 29 February 2020 and financial periods ending on or after 31 March 2020 year ends. This distinction determines the action required to be taken by management. In terms of IAS 10:

- If conditions exist at the end of the reporting period and the financial effects are material, consider whether appropriate adjustments have been made.
- If conditions arose after the reporting period and the financial effects are material, consider whether appropriate disclosures for each material category of a non-adjusting event after the reporting period have been made.

In considering whether COVID-19 is an adjusting or non-adjusting event, reference is made to SAICA *Educational Material 1: Application of IFRS Standards in Light of the Coronavirus Disease (COVID-19) Uncertainty: Events after the Reporting Period.* In summary, the SAICA Educational Material concludes the following:

- For reporting periods ending on 31 December 2019, any effects of events related to the COVID-19 outbreak on the financial statements of a reporting entity are the result of conditions that arose after the reporting date, which is therefore a non-adjusting event after the reporting period.
- For January 2020 and February 2020 year ends, the SAICA Educational Material is less definitive in concluding whether COVID-19 is an adjusting or non-adjusting event and states that entities will

[40] ISA 560, *Subsequent Events*, paragraph 4.

need to consider all relevant facts and circumstances in making their assessment whether conditions existed at 31 January 2020 or 29 February 2020.

- For financial reporting periods ending on or after 31 March 2020, events after 31 March related to COVID-19 would generally be adjusting events after the reporting period and would require the assets and liabilities to be adjusted to take into effect any accounting implications associated with or caused by events related to COVID-19.

In the event that COVID-19 is considered to be a non-adjusting event, the auditor should pay close attention and apply the appropriate level of professional scepticism to the adequacy of the disclosures included by management in the financial statements, in ensuring that the information provided is not boilerplate but rather an accurate reflection of the entity's specific circumstances.

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report but, if after the date of the auditor's report but before the date of the financial statements are issued, facts relating to COVID-19 become known to the auditor, that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor is required to carry out the steps outlined in ISA 560, *Subsequent Events* (ISA 560)[41]. This is also the case if the impact of COVID-19 became known after the financial report has been issued and had it been known at the date of the auditor's report, may have caused an amendment to the auditor's report. In this case, the auditor is required to carry out the steps outlined in ISA 560[42].

References and additional useful resources
• Australian Accounting Standards Board and the Auditing and Assurance Standards Board: The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations • AICPA: FAQs – Audit Matters and Auditor Reporting Issues related to COVID-19 • Malaysian Institute of Accountants: COVID-19: Frequently Asked Questions on Auditing • Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit – A Guidance for Auditors • The Institute of Chartered Accountants of Sri Lanka: COVID-19 Pandemic: Guidance Notes on the Implications on Auditing

[41] ISA 560, paragraph 10.
[42] ISA 560, paragraph 14.

13. Written representations

Are there any specific representations that the auditor should request that management include in the management representation letter as a result of COVID-19?

Audit evidence is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to enquiries, written representations are audit evidence[43]. ISA 580, *Written Representations* (ISA 580), cautions the auditor in indicating that although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions[44].

Appendix 1 to ISA 580 contains a list of ISAs containing requirements for written representations, as follows:

- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements,* paragraph 40.
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 17.
- ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 14.
- ISA 501, *Audit Evidence – Specific Considerations for Selected Items*, paragraph 12.
- ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 22.
- ISA 550, *Related Parties*, – paragraph 26.
- ISA 560, *Subsequent Events*, paragraph 9.
- ISA 570, *Going Concern*, paragraph 16(e).
- ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, paragraph 9.
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 13(c).

[43] ISA 580, paragraph 3.
[44] ISA 580, paragraph 4.

Areas that may be directly impacted by COVID-19 that the auditor may consider obtaining written representation on include:

- Confirmation that an adequate and effective system of internal controls was implemented during the lockdown period and thereafter;
- Confirmation of the validity of audit evidence, specifically when this is made available electronically;
- Compliance of the entity with laws and regulations, including those specifically imposed as a result of COVID-19;
- Significant judgements and estimates made in the preparation of the financial statements;
- Significant adjustments made to and/or significant non-standard disclosures included in the financial statements;
- Appropriate treatment of the impact of COVID-19 in the preparation of the financial statements, either in terms of the necessary adjustments being processed or the adequacy of the disclosures made; and
- Specific assumptions made in assessing the ability of the entity to continue as a going concern.

Auditors are encouraged to apply the appropriate level of professional scepticism in evaluating the reliability of the written representations made by management.

References and additional useful resources

- Institute of Chartered Accountants of Pakistan: The Impact of COVID-19 on Audit – A Guidance for Auditors
- Australian Auditing and Assurance Standards Board (AUASB): Additional COVID-19 FAQs for Auditors