



Dear Member,

Below is a guidance from the Financial Reporting Council of Nigeria for External Auditors on COVID-19.

Please find time to study it.

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FINANCIAL REPORTING COUNCIL OF NIGERIA COVID-19 AND ITS IMPACT ON AUDIT OF REPORTING ENTITIES IN NIGERIA GUIDANCE FOR EXTERNAL AUDITORS AND MATTERS TO CONSIDER DURING COVID-19 PERIOD

While the Financial Reporting Council aligns with all the measures by the Federal and State Governments as well as relevant agencies in containing the COVID-19, we are concerned about the financial health of corporate entities as usually reported in financial statements during this difficult period. Audit quality remains paramount especially during this period of uncertainty occasioned by the global Corona Virus pandemic.

Therefore, additional time may be required to document, review audit engagements due to some measures taken by Federal and State governments in collaboration with Ministries, Departments and Agencies (MDAs) to contain the scourge of COVID-19. The measures include travel bans, quarantines, social distancing, and closures of non-essential services. Undoubtedly, these measures have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown and other economic challenges.

The Council has assessed the impact of COVID-19 on the audit of financial statements, and has classified the situation into three major categories:

1. Audit of 2019 Financial Statements which have been completed, audit opinion issued and report already released to shareholders. No impact of COVID -19. Only accounting issues in first-quarter reports.
2. Audit of 2019 Financial Statements that is still ongoing with respect to reporting period ending on or before December 31, 2019; opinion not yet issued and report not yet released to shareholders. Auditors are required to consider the extent of disclosure to be included in their financial statements as companies are required to disclose the following for each material category of non-adjusting event after their reporting period:
 - (a) the nature of the event;
 - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made. The FRC considers the impact of COVID-19 outbreak to be material.
3. Audit of 2020 Financial Statements (Accounting periods ending on or after January 1, 2020)

The following are the implications of the COVID-19 outbreak on audits and auditors in Nigeria:

- **New Audit Engagement**

The Council requires strict compliance with engagement procedures as provided in ISA 210 Agreeing the Terms of Audit Engagement. Where it is impracticable to do so, the new Auditor should notify the FRC of situations and obtain permission before proceeding with the new audit.

- **Audit Planning, Execution and Reporting**

We have identified that several audit firms may have difficulties in completing all appropriate audit steps as a result of the lockdown in Nigeria occasioned by the need to contain the spread of COVID -19. This is expected to cause delay in the completion of audit and approval of Financial Statements by the Board of reporting entities.

We encourage practitioners to demonstrate flexibility in their work pattern, which includes work from home arrangements, use of video/telephone conferencing, and electronic evidence. Despite these measures, there may still be difficulties in obtaining sufficient audit evidence as a result of differing levels of infrastructure in the country. The Auditor should apply alternative procedures. If the Auditor is still not able to obtain sufficient appropriate audit evidence, then the Auditor should consider modifying the opinion on the financial statements in line with ISA. The audited financial statements containing the modified opinion must then be brought to the Council's attention in accordance with the provisions of the FRC Act.

In a multi-location audit situation, the group auditor should consider the component auditors ability to complete their work and as well as the group auditor's ability to review the work of component auditors. If he is still not able to obtain sufficient appropriate audit evidence, then he should consider modifying his opinion in line with the International Standards on Auditing (ISAs). The audited financial statements containing the modified opinion must then be brought to the Council's attention in accordance with the provisions of the FRC Act.

- **Assessing the Impact of COVID -19**

Obtaining an adequate understanding of the impact of COVID-19 outbreak on the client's reporting framework is imperative for the Auditor. Auditors should assess the implications of COVID-19 outbreak on client's business operations and the financial reporting processes. The Auditors should discuss these matters proactively with clients to understand whether there is an impact on the client's audit processes and reporting timetable.

- **Events after the reporting date**

IAS 10 Events After the Reporting Date differentiates between those events occurring after the reporting date that provide more information about the conditions that existed at the end of the reporting period ("adjusting events") and those that are indicative of conditions that arose after the reporting period date ("non-adjusting events"). The financial statements should be adjusted in response to adjusting events whilst only disclosures are required in response to material non- adjusting events.

The Council aligns with the consensus that the outbreak of COVID-19 in 2020 was a non-adjusting event for most companies in Nigeria preparing financial statements for the periods ended December 31, 2019. Companies in Nigeria will therefore need to determine the extent of the impact of COVID-19 that should be considered to arise from non-adjusting events for subsequent reporting dates. This however will be dependent on the reporting date, the specific circumstances of the company's operations and the facts under consideration.

Companies will need to focus on the importance of the conditions at the reporting date in reaching this judgment - whether the event confirms incidence at reporting date or indicates or may indicate an adverse situation more than what existed at the reporting date. If the judgment had a significant effect on the amounts in the financial statements, then this judgment should be disclosed and explained.

If an event is considered to be non-adjusting, the nature of the event should however be disclosed. Where an estimate of the financial effect on the company can be made, then this should be disclosed. Otherwise, the fact that the financial effect cannot be estimated should be disclosed. The estimate does not need to be exact – a range of estimated effects is better than no quantitative information at all. In the absence of any quantitative estimate, a qualitative description should be provided.

- **Going concern**

The COVID-19 pandemic has the potential to wreak havoc on entities' business operations and economic conditions. For instance, the disruption to the business operation could be as a result of an entity's link to the countries mostly affected by the pandemic through interrupted supply chain, capital importation, uncertainty in asset valuation, etc. These will in turn have significant impact on the cash flows and/or projected financial information of the entity, which may likely affect the assessment of the company's ability to continue as a going concern.

As it is the responsibility of the management to prepare financial statements, management is therefore required to assess an entity's ability to continue as a going concern. Auditors on the other hand are responsible for obtaining sufficient appropriate audit evidence regarding going concern, and have to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, as well as to conclude based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

In making these assessments, auditors and companies should draw on the available facts and circumstances including availability of palliatives.

AUDIT OF 2020 FINANCIAL STATEMENTS

- **Audit and Accounting issues**

During a time like this, valuation, estimation, determination of materiality and disclosure issues become very crucial. The ability to obtain and assess sufficient evidence to support expected credit loss on financial instruments, critical accounting estimates, impairment, and going concern assessments will become very difficult and sometimes complicated.

More so, disclosures regarding subsequent events, material uncertainties and risks will mostly be required in conjunction with quantitative disclosures of estimation or assumption uncertainty. The Financial Reporting Council of Nigeria envisages that many audits and interim reviews will become much more complex given the current global COVID-19 pandemic. For instance, IAS 10 paragraphs 14 to 16 describe situations where subsequent deteriorations in the operating results or financial position of an entity after the reporting period may lead to a situation where the financial statements are prepared using alternative basis rather than going concern basis depending on the pervasiveness.

Given the severity of the COVID-19 pandemic and its consequential impacts on employees, mobility, the financial systems, and the economy, it is very likely that auditors may encounter scope limitations or complex auditing and accounting issues which may require audit teams to consider modifications to audit opinions.

Audit firms' Quality leaders/engagement partners are encouraged to reach out to the Council if there are any matters, they would require the support or clarification of the Council. The FRC will continue to monitor the events carefully and issue necessary communication as the situation arises.