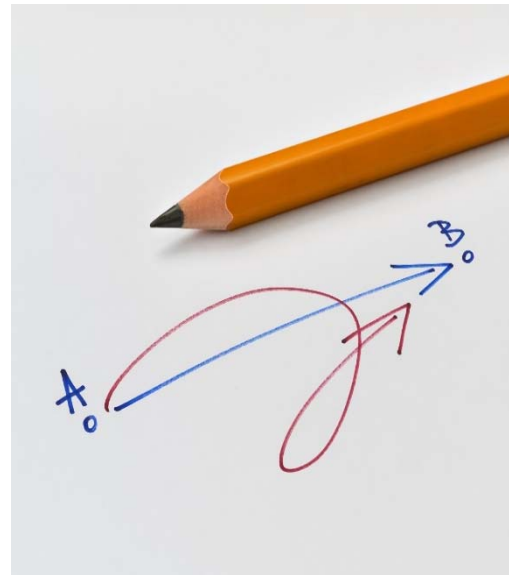


## Highlighting Areas of Focus in an Evolving Audit Environment Due to the Impact of COVID-19

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

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

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



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

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

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



## Relevant ISA

## Specific Matters for Consideration

Identifying and assessing risks of material misstatement  
ISA 315  
(Revised)

- The impact on the planned audit approach of new or revised risks that have arisen because of COVID-19
- Possible revision of risk assessments already made

- The impact of changes to the auditor's understanding of the entity's system of internal control, including:
  - The control environment
  - Changes to the planned reliance on controls in determining responses to identified risks of material misstatement

Responding to Assessed Risks  
(ISA 330)

- Changes needed to planned responses arising from the impact of environmental developments, such as the ability to obtain sufficient appropriate audit evidence (e.g., there may now be access issues or attendance at a stock count may not be possible for which alternative procedures may be needed.)

- Greater focus on:
  - 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.

ISA 540  
(Revised)  
Auditing Accounting Estimates

- Greater focus on:
  - Changes to regulatory factors that may affect accounting estimates (e.g., initiatives aimed at sustainable solutions for temporarily distressed debtors in the context of the outbreak).
  - Whether assumptions are appropriate in the circumstances and in the context of the applicable financial reporting framework (e.g., cash flow forecasts, discount rates, etc.).
  - Whether data being used by the entity is relevant and reliable.
  - The effect of changing inherent risk factors, in particular uncertainty.



## Relevant ISA

## Specific Matters for Consideration

The auditor's responsibilities relating to subsequent events (ISA 560)

- Considering that shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor's report.
- The identification of any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework.

The auditor's responsibilities relating to going concern (ISA 570 (Revised))

- The impact of COVID-19 (i.e., whether it has materially impacted or is it expected to materially impact) on the auditor's evaluation of management's assessment of going concern.
- Reconsideration of the appropriateness of the use of the going concern basis for the preparation of the financial statements, or consequential modification to the auditor's report as needed.

Group audits (ISA 600)

- If applicable, reassessment of the group auditor's planned procedures in relation to the work of component auditors, such as the ability of the group auditor to appropriately review (or be involved in) the work of component auditors, i.e., whether alternative procedures need to be considered, and the impact on the sufficiency and appropriateness of audit evidence on which to base the group audit opinion..



## Relevant ISA

## Specific Matters for Consideration

Forming an opinion and reporting on financial statements (including key audit matters)  
(ISA 700 (Revised) and ISA 701)

- Focusing on matters to be able to conclude, including whether all key aspects of the audit have been appropriately addressed, such as:
  - Areas that may require management to provide further evidence due to the fast-changing nature of this issue.
  - New uncertainties introduced as a result of COVID-19, e.g., have appropriate changes been made to recognize any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations);
  - The impact of new or changed laws or regulations on the financial statements.

- Where applicable, new key audit matters to be included in the auditor's report (e.g., matters that rise to the level of requiring significant auditor attention owing to the impact of COVID-19).

Other Information  
(ISA 720 (Revised))

- Any inconsistencies between the information provided by the entity in its annual report and in the financial statements about the impact of developments arising from COVID-19.

## Other Related Staff Alerts (to come)

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

### International Standards on Auditing Referred to in this Publication

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

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

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

ISA 560, *Subsequent Events*

ISA 570 (Revised), *Going Concern*

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

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

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

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

