



April 2020

**AUDIT 02/20 -
COMMUNICATION
IN RELATION TO THE
IMPACT OF COVID-19
ON ACCOUNTING
AND REPORTING
- HIGH LEVEL**

1

Impact on risk assessment due to challenge in obtaining evidence and delivery in time with deadlines

Coronavirus' impact on an auditor's risk assessment of a company will need to be constantly reconsidered during the audit in line with **ISA 315 - Identifying and assessing the risks of material misstatement through understanding the entity and its environment**.

IMPLICATIONS ON AUDIT EVIDENCE

It is the auditor's responsibility to obtain sufficient and appropriate evidence before issuing their audit report and due to the existing limitations auditors are advised to explore alternative audit procedures. Particular challenges include; group audit engagements with subsidiaries to which access to review working papers is restricted, attendance to the entity's physical inventory count regarded as impracticable and more.

ISA 500 - Audit Evidence, ISA 501 - Additional considerations for specific items and **ISA 600 - Audits of group financial statements** provide further details and guidance.

Due to the current conditions audits may require additional time (refer to latest reporting deadline measures, as at date of guidance in links: **MGA, MFSA & CFR** - subject to updates by the relevant authority in the coming days) and if extension is not possible, auditors may need to modify their audit report to reflect that they have not been able to obtain the necessary audit evidence whilst one should also consider additional matters to be included in the letter of representation (LOR).

2

Communication with those charged with governance (TCWG)

Auditors are reminded that it is important that they communicate timely and appropriately with the entity's management and TCWG about the impact of the COVID-19 outbreak on their audit work.

3

Subsequent events

In line with 'ACCOUNTING 01/20 COMMUNICATION IN RELATION TO THE IMPACT OF COVID-19 ON ACCOUNTING AND REPORTING – HIGH LEVEL' where management determines that the COVID-19 outbreak is a non-adjusting subsequent event for an entity's most recently-ended financial year, management must however consider the implications of COVID-19 on the disclosures in the financial statements of the an entity's current reporting period.

Information must be given on the post-closing impact of COVID-19 so that users of the financial statements are properly informed. It must include the nature of the event, as well as an estimate of the impact on the financial statements when possible.

The auditor should exercise professional scepticism while assessing whether the disclosure note is clear and specific enough.

Please note that this event becomes an adjusting event if the going concern assumption is compromised.

4

Assessment of Going Concern

Auditors must pay close attention to the entity's assessment regarding its ability to continue as a going concern as the uncertainty around the forecasts for economies worldwide and the increased uncertainty around the position for many entities may pose a challenge to the auditors' assessment. **ISA 570 - Going Concern** remains applicable.

As mentioned above, the Going Concern assumption may not be used if management intends to liquidate the entity in 2020 or if the capacity of the entity to continue as a going concern is compromised as a result of COVID-19 impacts.



5

Impact on Auditor's Report

Auditors need to also consider their responsibilities in relation to other information presented by management with the financial statements. This is covered in **ISA 720 - Auditor's responsibilities relating to other information**. Potential effects on the auditor's report may include:

- For public interest entities, a Key Audit Matter (KAM) related to additional audit work may be considered of the coronavirus outbreak;
- An 'emphasis of matter' paragraph;
- A material uncertainty in relation to a going concern paragraph;
- A qualification, or adverse opinion;
- A qualified opinion, or a disclaimer of opinion, because of scope limitation when unable to obtain sufficient appropriate audit evidence.

The Institute will be issuing more detailed guidance in respect of the various aspects of the COVID-19 outbreak's impact on auditing including – but not limited to – examples and explanations focused on the areas highlighted above.

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