AUDIT 02/20 - COMMUNICATION IN RELATION TO THE IMPACT OF COVID-19 ON AUDITING - HIGH LEVEL
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).

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.
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 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.

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.
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.

Disclaimer

The information contained in this Communication is for general information purposes only. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules and regulations, and the inherent hazards of electronic communication, there may be delays, omissions or inaccuracies in information contained in this site. Accordingly, the information in this Communication is provided with the understanding that the authors and publishers are not herein engaged in rendering any sort of service. As such, it should not be used as a substitute for consultation with professional advisers or direct reference to the relevant laws, rules and regulations.

While we have made every attempt to ensure that the information contained in this site has been obtained from reliable sources and up to date as at the date of issue, MIA is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this Communication is provided “as is”, with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. Any reliance you place on such information is therefore strictly at your own risk. In no event will MIA, or its agents or employees thereof be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from loss of data or profits arising out of, or in connection with, any decision made or action taken in reliance on the information in this communication.