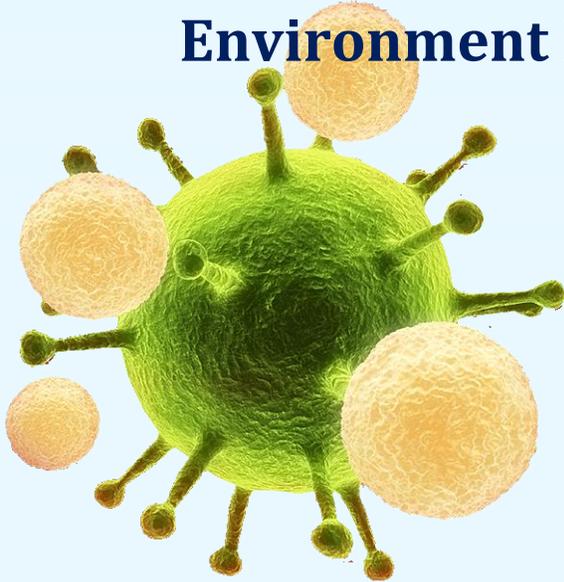


Review Engagements on Interim Financial Information in the Current Evolving Environment Due to COVID-19



**Auditing and Assurance Standards Board (AASB)
The Institute of Chartered Accountants of India**



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We express our gratitude to the Board members for their valuable suggestions in finalizing this Guidance. We also express our gratitude to Secretariat of the Accounting Standards Board for their contribution in finalizing the accounting related matter in this Guidance. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB and other staff of AASB in finalizing this Guidance.

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Vice Chairman
Auditing and Assurance Standards Board

CA. G. Sekar
Chairman
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Auditing Guidance on COVID-19 issued by AASB

- ❖ March 27, 2020: ICAI Accounting and Auditing Advisory - Impact of Coronavirus on Financial Reporting and the Auditors Consideration (issued jointly with Accounting Standards Board of ICAI).
Website Link: <https://resource.cdn.icai.org/58829icai47941.pdf>
- ❖ May 10, 2020: Going Concern - Key Considerations for Auditors amid COVID-19.
Website Link: <https://resource.cdn.icai.org/59473aasb48392.pdf>
- ❖ May 13, 2020: Physical Inventory Verification – Key Audit Considerations amid COVID-19.
Website Link: <https://resource.cdn.icai.org/59498aasb48418.pdf>
- ❖ May 17, 2020: Auditor’s Reporting - Key Audit Considerations amid COVID-19.
Website Link: <https://resource.cdn.icai.org/59546aasb48467.pdf>
- ❖ May 23, 2020: Subsequent Events - Key Audit Considerations amid COVID-19.
Website Link: <https://resource.cdn.icai.org/59680asb48563.pdf>

This document has been prepared to highlight key areas of focus in the current environment when undertaking a review of interim financial information in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

This document does not amend or override SRE 2410. Reading this document is not a substitute for reading SRE 2410.

Preparers, those charged with governance and users of financial statements may find this document helpful in understanding the auditor's responsibilities in relation to the review of interim financial information.

I. Background

Jurisdictional law or regulation, securities regulation, stock exchange rules, or national standards may affect which financial reporting framework is used to prepare the interim financial information, the period for which it is prepared (e.g. quarterly or half-yearly) and whether the interim financial information is required to be reviewed or audited by the independent auditor of the entity, what is the applicable financial reporting framework to use.

In this regard, it may be noted that for preparing the financial statements, specified class of companies need to follow Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015 in accordance with Section 133 of the Companies Act, 2013 and other companies including banks and insurance companies are required to comply with Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006. Other entities not covered above are required to comply with Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI).

Further, the Securities and Exchange Board of India (SEBI) has also prescribed requirements to be complied with by the listed entities while preparing their financial results and audit/ limited review of these financial results. These requirements have been prescribed in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred as "LODR Regulations")

Certain relevant Sub-regulations of Regulations 33, 52 and 70 of LODR Regulations which deal with financial results may be noted as follows (for complete Regulations, please refer LODR Regulations):



CHAPTER IV: OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS SPECIFIED SECURITIES

“Financial Results

33.(1) While preparing financial results, the listed entity shall comply with the following:

- (a) The financial results shall be prepared on the basis of accrual accounting policy and shall be in accordance with uniform accounting practices adopted for all the periods.
- (b) The quarterly and year to date results shall be prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 or Indian Accounting Standard 34 (AS 25/ Ind AS 34 – Interim Financial Reporting), as applicable, specified in Section 133 of the Companies Act, 2013 read with relevant rules framed thereunder or as specified by the Institute of Chartered Accountants of India, whichever is applicable.
- (c) The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India:

Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

- (d) The listed entity shall ensure that the limited review or audit reports submitted to the stock exchange(s) on a quarterly or annual basis are to be given only by an auditor who has subjected himself to the peer review process of Institute of Chartered Accountants of India and holds a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.
- (e) The listed entity shall make the disclosures specified in Part A of Schedule IV.
- (3) The listed entity shall submit the financial results in the following manner:
 - (a) The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within forty-five days of end of each quarter, other than the last quarter.
 - (b) In case the listed entity has subsidiaries, in addition to the requirement at clause (a) of sub-regulation (3), the listed entity shall also submit quarterly/year-to-date consolidated financial results.
 - (c) The quarterly and year-to-date financial results may be either audited or unaudited subject to the following:



- (i) In case the listed entity opts to submit unaudited financial results, they shall be subject to limited review by the statutory auditors of the listed entity and shall be accompanied by the limited review report.

Provided that in case of public sector undertakings this limited review may be undertaken by any practicing Chartered Accountant.

- (ii) In case the listed entity opts to submit audited financial results, they shall be accompanied by the audit report.”

CHAPTER V: OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS NON-CONVERTIBLE DEBT SECURITIES OR NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES OR BOTH

“Financial Results

52. (1) The listed entity shall prepare and submit un-audited or audited financial results on a half yearly basis in the format as specified by the Board within forty five days from the end of the half year to the recognised stock exchange(s).

Provided that in case of entities which have listed their equity shares and debt securities, a copy of the financial results submitted to stock exchanges shall be provided to Debenture Trustees on the same day the information is submitted to stock exchanges.

(2) The listed entity shall comply with following requirements with respect to preparation, approval, authentication and publication of annual and half-yearly financial results:

- (a) Un-audited financial results shall be accompanied by limited review report prepared by the statutory auditors of the listed entity or in case of public sector undertakings, by any practising Chartered Accountant, in the format as specified by the Board:

Provided that if the listed entity intimates in advance to the stock exchange(s) that it shall submit to the stock exchange(s) its annual audited results within sixty days from the end of the financial year, un-audited financial results for the last half year accompanied by limited review report by the auditors need not be submitted to stock exchange(s).

(4) The listed entity, while submitting half yearly / annual financial results, shall disclose the following line items along with the financial results:

- (a) credit rating and change in credit rating (if any);
(b) asset cover available, in case of non convertible debt securities;
(c) debt-equity ratio;



- (d) previous due date for the payment of interest/ dividend for non-convertible redeemable preference shares/ repayment of principal of non-convertible preference shares /non-convertible debt securities and whether the same has been paid or not; and,
- (e) next due date for the payment of interest/ dividend of non-convertible preference shares/ principal along with the amount of interest/ dividend of non-convertible preference shares payable and the redemption amount;
- (f) debt service coverage ratio;
- (g) interest service coverage ratio;
- (h) outstanding redeemable preference shares (quantity and value);
- (i) capital redemption reserve/debenture redemption reserve;
- (j) net worth;
- (k) net profit after tax;
- (l) earnings per share:

Provided that the requirement of disclosures of debt service coverage ratio, asset cover and interest service coverage ratio shall not be applicable for banks or non banking financial companies registered with the Reserve Bank of India.

Provided further that the requirement of this sub-regulation shall not be applicable in case of unsecured debt instruments issued by regulated financial sector entities eligible for meeting capital requirements as specified by respective regulators.”

CHAPTER VI: OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS SPECIFIED SECURITIES AND EITHER NON-CONVERTIBLE DEBT SECURITIES OR NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES OR BOTH

“Periodical Financial Results

70. (1) The listed entity shall file periodical financial results with the stock exchange in such manner and within such time and to the extent that it is required to file as per the listing requirements of the home country.

(2) The listed entity shall comply with the requirements with respect to preparation and disclosures in financial results as specified in Part B of Schedule IV.”



SCHEDULE IV: PART A: DISCLOSURES IN FINANCIAL RESULTS

[See Regulation 33(1)(e)]

“The listed entity shall disclose the following while preparing the financial results:-

A. Changes in accounting policies, if any, shall be disclosed in accordance with Accounting Standard 5 or Indian Accounting Standard 8, as applicable, specified in Section 133 of the Companies Act, 2013 read with relevant rules framed thereunder or by the Institute of Chartered Accountants of India, whichever is applicable.”

SCHEDULE IV: PART B: PREPARATION AND DISCLOSURES IN FINANCIAL RESULTS OF LISTED ENTITY WHICH HAS LISTED ITS INDIAN DEPOSITORY RECEIPTS

[See Regulation 70(2) and 71(3)]

“The listed entity shall comply with the following requirements while preparing the financial results:-

A. Periodicity of Disclosure of Financial Results

(1) Financial results may be given on annual, half yearly and/or quarterly basis, as required under the requirements of the home country.

B. Accounting Principle to be used in preparation and disclosure of financial Results:

(1) The listed entity may prepare and disclose its financial results in accordance with Indian GAAP or International Financial Reporting Standards IFRS or US GAAP.

(2) In case the listed entity prepares and discloses the financial results as per US GAAP, a reconciliation statement vis-a-vis Indian GAAP and summary of significant differences between the Indian GAAP and US GAAP has to be annexed.

(3) If financial results are prepared in accordance with IFRS, then listed entity shall annex only the summary of significant differences between the Indian GAAP and IFRS.

(4) If the listed entity is shifting from IFRS to US GAAP or vice versa then the accounts relating to the previous period shall be properly restated for comparison.

(5) The Accounting / Reporting Standard followed for any interim results shall be consistent with that of the Annual results.



- (6) The financial results so submitted shall be based on the same set of accounting policies as those followed in the previous year provided that in case, there are changes in the accounting policies, the results of previous year shall be restated as per the present accounting policies, to make it comparable with current year results.”

It may be noted that regarding the formats for publishing financial results, SEBI has issued circulars dated November 30, 2015 and July 5, 2016. Further, regarding the formats for limited review reports, SEBI has issued circulars dated March 29, 2019 and July 19, 2019. These circulars may be referred for formats of financial results and formats of limited review reports.

Further, SEBI has also issued a circular dated May 20, 2020 regarding “Advisory on disclosure of material impact of CoVID–19 pandemic on listed entities under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (‘LODR Regulations’/ ‘LODR’). Relevant extracts from the aforesaid circular are given below:

“It is observed that many listed entities have made disclosures under LODR Regulations, primarily intimating shutdown of operations owing to the pandemic and resultant lockdowns. Some listed entities have provided information relating to actions taken towards sanitation, safety etc.; the number of entities that have disclosed the financial impact, however, is small.

Listed entities around the world have been making disclosures regarding the impact of the pandemic, including that on financial condition and results of operations, future operations, capital and financial resources, liquidity, assets, internal financial control over financial reporting and disclosure controls and procedures, demand for products/services etc. Regulators have encouraged timely reporting as well as complete and accurate disclosure of the impact, as far as possible.

Listed entities should endeavour to ensure that all investors have access to timely, adequate and updated information. Towards this end, entities are encouraged to evaluate the impact of the CoVID-19 pandemic on their business, performance and financials, both qualitatively and quantitatively, to the extent possible and disseminate the same. An illustrative list of information that listed entities may consider disclosing, subject to the application of materiality, is given below:

- ❖ Impact of the CoVID-19 pandemic on the business;
- ❖ Ability to maintain operations including the factories/units/office spaces functioning and closed down;
- ❖ Schedule, if any, for restarting the operations;
- ❖ Steps taken to ensure smooth functioning of operations;
- ❖ Estimation of the future impact of CoVID-19 on its operations;



- ❖ Details of impact of CoVID-19 on listed entity's –
 - capital and financial resources;
 - profitability;
 - liquidity position;
 - ability to service debt and other financing arrangements;
 - assets;
 - internal financial reporting and control;
 - supply chain;
 - demand for its products/services;
- ❖ Existing contracts/agreements where non-fulfilment of the obligations by any party will have significant impact on the listed entity's business;
- ❖ Other relevant material updates about the listed entity's business.

The above list is only illustrative and not exhaustive. Further, to have continuous information about the impact of CoVID-19 on operations, listed entities may provide regular updates, as and when there are material developments.

Additionally, while submitting financial statements under Regulation 33 of the LODR, listed entities may specify/include the impact of the CoVID-19 pandemic on their financial statements, to the extent possible.

When listed entities disclose material information related to the impact of CoVID-19, they should not resort to selective disclosures, keeping in mind the principles governing disclosures and obligations of a listed entity as prescribed in LODR Regulations, more specifically, having regard to the requirements of Regulation 4(2)(e) of the LODR on disclosure and transparency. Depending on circumstances peculiar to a listed entity and on account of passage of time, the listed entity shall revisit, refresh, or update its previous disclosures.”

There might be other sector specific requirements to publish interim financial results. For example, IRDAI vide its circular dated January 28, 2010 on “Public Disclosures by Insurers” requires insurers to publish the Balance Sheet, Profit & Loss Account, Revenue Account and Key Analytical Ratios on an half yearly basis, in the forms forming part of the circular. The circular also requires that the half yearly results will be subject to limited review by the auditors. The limited review report shall be placed before the Board of Directors or by a Committee thereof.



Such sector specific requirements should also be borne in mind, especially amidst the challenges arising out of the current environment. However, for all such limited reviews, the requirements of SRE 2410 will have to be adhered to by the auditors.

This document highlights key considerations for auditors performing reviews of interim financial information in accordance with SRE 2410¹, given the unique challenges that may arise in the current environment.

A review of interim financial information in accordance with SRE 2410 is a limited assurance engagement, in which the independent auditor of the entity expresses a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects in accordance with the applicable financial reporting framework ("interim review conclusion"). This review is undertaken by the independent auditor of the entity.

Early planning (or reconsideration, if already planned) of the possible effects of the COVID-19 pandemic on the engagement will be essential, as auditors may need additional resources and time to plan and perform the engagement. In the case of group engagements, there may be a need for more engagement with, and involvement of, component auditors. In addition, auditors may determine it necessary to communicate more extensively (and more often) with those charged with governance in the current environment, for example, regarding the application of the financial reporting framework, or changes in controls in the evolving circumstances.

II. Management's Responsibility for the Interim Financial Information

Management is responsible for preparing the interim financial information, and for establishing and maintaining effective internal control relevant to the preparation of the interim financial information. Management prepares the interim financial information in accordance with an applicable financial reporting framework.

¹ Paragraph 3 of SRE 2410 requires that a practitioner who is engaged to perform a review of interim financial information and who is not the auditor of an entity performs the review in accordance with SRE 2400(Revised), Engagements to Review Historical Financial Statements. This document focuses on the performance of a review of interim financial information performed in accordance with SRE 2410. The term "auditor" is used throughout this document, not because the auditor is performing an audit function but because the scope of this document is limited to interim review engagements performed by the independent auditor of the financial statements of the entity.



The Applicable Financial Reporting Framework

Following financial reporting framework is applicable to various entities:

| Criteria for Entities | Applicable Financial Reporting Framework |
|--|---|
| All listed companies and unlisted companies having net worth above Rs. 250 crores (other than banking companies and insurance companies) | Companies (Indian Accounting Standards) Rules, 2015 |
| Unlisted companies having net worth less than Rs. 250 crores | Companies (Accounting Standards) Rules, 2006 and sector specific requirements, if any, laid down by regulators like RBI, IRDAI etc. |
| Banking companies and insurance companies | |
| Other entities not covered above | Accounting Standards issued by ICAI |

Ind AS 34, “Interim Financial Reporting” and AS 25, “Interim Financial Reporting”, sets out the requirements for an interim financial report. Interim financial information typically focuses on updates from the latest complete set of annual financial statements. Ind AS 34/AS 25 require an entity to include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. The COVID-19 pandemic may give rise to events and transactions that significantly change the financial position and performance of the entity since the end of the last annual reporting period. As a result of the pandemic, significantly more effort may be required by management to appropriately apply the recognition, measurement and disclosure requirements of the applicable financial reporting framework, including adequate disclosures in the interim financial information about the COVID-19 pandemic.

As a result of the pandemic events, there may be an increase in management judgments needed in making, presenting, and disclosing accounting estimates. Furthermore, management may need to implement new controls, or modify existing controls, to prepare the interim financial information on a timely basis (e.g., due to changes in personnel and a lack of physical access), and to address increased risks of error or fraud. They may also face logistical challenges, for example, there may be difficulties in obtaining valuations from experts or obtaining information from subsidiaries, joint ventures or associates located in other jurisdictions, particularly in circumstances when those jurisdictions have provided extensions on financial reporting deadlines.



Ind AS 34/AS 25 prescribe the minimum content of an interim financial report and also prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. As per Ind AS 34/ AS 25, interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported. Ind AS 34/AS 25 shall be applied if an entity is required or elects to publish an interim financial report.

Form and content of complete set of interim financial statements should conform to the requirements applicable to annual complete set of financial statements. Accordingly, an entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.

Ind AS 34 and AS 25 also provide option to management in deciding whether to provide a complete set of interim financial statements or condensed set of interim financial statements.

The relevant standards in the applicable financial reporting framework for the preparation of interim financial information, i.e., Ind AS 34 or AS 25, have been supplemented by other requirements in law or regulation relating to interim financial reporting (please refer earlier section). Furthermore, in response to the COVID-19 pandemic, the following Advisories have been issued by the ICAI:

- ❖ ICAI COVID-19 Disruptions Accounting and Auditing Advisory (website link: <https://resource.cdn.icai.org/58829icai47941.pdf>).
- ❖ ICAI Accounting and Auditing Advisory (March 2020) - Addendum April 10, 2020 (website link: <https://resource.cdn.icai.org/58993icaiasb110420.pdf>).

As part of management's responsibility for preparing the interim financial information, ordinarily management is expected to clearly indicate the applicable financial reporting framework that has been used to prepare the interim financial information so that users of the interim financial information are informed.

It may also be noted that the management shall consider the latest developments in the accounting standard-setting areas which may be relevant and applicable to the preparation of interim financial information. Some of these developments such as amendments to the existing standards may be a direct consequence of temporary reliefs from or exceptions to application of the normal principles of the standards e.g. certain provisions of Ind AS 116, *Leases* relating to accounting of lessees were amended in July 2020 to provide operational relief to the lessees to account for lease-rent concessions given by the lessor as a direct consequence of COVID-19.



III. The Auditor's Review of the Interim Financial Information in Accordance with SRE 2410

Areas of Focus in Performing the Review of Interim Financial Information

The COVID-19 pandemic may also cause challenges for the auditor in performing the interim review procedures. In addition to matters relating to the applicable financial reporting framework (see previous section), the following examples indicate areas which may require increased effort from management, and where the auditor may focus:

- ❖ Changes in accounting estimates (e.g., fair value measurements, allowance for expected credit losses or inventory valuation), and the potential for heightened estimation uncertainty
- ❖ Application of new accounting policies as a result of new events or transactions (e.g., restructuring costs, employee termination benefits, government assistance or discontinued operations)
- ❖ Accounting for modifications to agreements and contracts, or terms and conditions of service (e.g., modifications to return policies, new or modified contracts with customers or suppliers or new or modified debt agreements)
- ❖ Impairment of non-financial assets (including goodwill)
- ❖ Impacts on hedging relationships
- ❖ Tax considerations (e.g. recoverability of deferred tax assets)
- ❖ Potential breaches of loan covenants, including the impact on the classification of liabilities as current or non-current
- ❖ Impacts on management's going concern assessment
- ❖ Potential impact of employee cost derived from cost rate at end of the prior financial year, adjusted for significant market fluctuations and for significant one-off events, such as plan amendments, curtailments and settlements
- ❖ Applicability of force majeure clause in significant contracts
- ❖ Modification to ongoing lease agreement and consequent impact on the right of use assets
- ❖ New internal controls or changes to internal controls affecting the preparation of interim financial information
- ❖ Disclosure of the impact of COVID-19 on the balance sheet and the statement of profit and loss of the entity



- ❖ Disclosure requirements in the financial reporting framework that have been triggered because of COVID-19 (e.g., disclosures related to impairments, financial instruments, discontinued operations or loan breaches)
- ❖ The level of materiality used by management for recognition, measurement, presentation and disclosure in the interim financial information may have been affected by the financial effects of the COVID-19 pandemic
- ❖ Specific disclosure requirements stipulated by regulators to be made in the interim financial information
- ❖ Shift in the benchmarks for determining materiality
- ❖ Potential impact on group audit and reporting thereat
- ❖ Challenges faced in the remote operations and work from home scenario

The following sections describe potential impacts of the COVID-19 pandemic on the auditor's interim review procedures.

Understanding the Entity and its Environment, Including its Internal Control²

As part of the interim review engagement, the auditor updates his understanding of the entity and its environment, including its internal control, from the understanding obtained as part of the latest audit of the annual financial statements of the entity. The procedures include inquiries of management to update knowledge obtained from the latest audit of the annual financial statements of the entity. The Table given below provides examples of areas which the auditor may want to consider because of the COVID-19 pandemic:

| Inquiries of management | Examples of the possible effect of the COVID-19 pandemic |
|---|---|
| Effect of changes in the entity's business model and activities | For example, there may be changes in: <ul style="list-style-type: none">❖ The entity's strategy.❖ The nature of revenue sources, products or services, and markets in which the entity operates, including changes in the terms offered by the entity and discontinued lines of business if any. |

² Paragraphs 12-18 of SRE 2410.



| | |
|--|---|
| | <ul style="list-style-type: none"> ❖ How the entity conducts its operations, and the location of its operations. ❖ Key customers and important suppliers of goods and services. ❖ Terms of contracts. ❖ How the entity is financed, for example its debt structure and related terms, as well as additional funding through government assistance. ❖ Moratorium availed in respect of borrowings and related accounting impact and disclosures. |
| <p>Significant changes in internal controls and the potential effect of any such changes on the preparation of the interim financial information. (Though separate reporting of adequacy of internal controls over financial reporting is not required during a review of interim financial information, assessment of internal controls is necessary to understand the implications for the preparation of interim financial information)</p> | <p>For example:</p> <ul style="list-style-type: none"> ❖ Controls may not operate as designed because of remote working arrangements, a lack of proper segregation of duties (e.g., due to layoffs or difficulties to coordinate certain duties) or the individuals with appropriate knowledge and experience may not be performing the control. ❖ New or augmented controls may be put in place to address increased risks of error or fraud, changes in business activities or to mitigate the effect of deficiencies in other controls that are not able to operate as designed. ❖ Controls may not have been designed and implemented to address newly identified risks. |
| <p>When such circumstances have been identified, auditors need to determine how such circumstances may affect the inquiries to be made and/or analytical and other review procedures to be applied, as well as the identification of particular events, transactions, or assertions to which inquiries may be directed or analytical or other review procedures applied.</p> | |



Fraud and Professional Skepticism

Auditors must focus on exercising professional skepticism when performing interim review procedures.³

This may be particularly important when inquiring of management and others, as appropriate, about the risk that the interim financial information may be materially misstated as a result of fraud, and about their knowledge of fraud or suspected fraud affecting the entity.

The following examples are illustrative of events or conditions that may indicate an increased risk of fraud as a result of the COVID-19 pandemic.

Incentives/ Pressures

- ❖ Employees may be in jeopardy of experiencing layoffs or pay decreases, or significant portions of their compensation may be contingent upon achieving targets.
- ❖ Management may want to modify the financial performance of the entity in order to achieve targets, avoid bankruptcy or foreclosure, sustain customer bases, obtain additional debt or equity financing or qualify for government assistance.

Opportunities

- ❖ Internal controls may not be properly monitored, or internal controls designed to prevent fraud (such as segregation of duties), may not be operating as designed, due to staff being remotely located, or employee layoffs.
- ❖ Increased need for judgments in preparing financial information, coupled with a possible lack of accurate or verifiable data, may give rise to increased estimation uncertainty and possible management bias.

Attitudes/ Rationalizations

- ❖ Increased employee dissatisfaction with the entity as a result of negative impacts on compensation, such as decreases in salary or bonus payments.
- ❖ There may be a perception that falsifying accounting records or financial statements will aid the entity's survival.
- ❖ Rationalizing that the entity can afford to "give something back", particularly for financially stressed employees.

³ Paragraph 6 of SRE 2410.



Exercising professional skepticism is also important given the extent of management's judgments in preparing the interim financial information, and how the financial reporting framework may drive those judgments. There is likely to be a significant change in the judgments made by management, particularly, in light of the continually changing environment and in many cases the significant uncertainty looking forward. For example, if interim financial information is prepared in accordance with Ind AS 34, Ind AS 36 does not permit impairment losses for goodwill to be reversed in subsequent periods;⁴ therefore, management may be motivated to conclude that an impairment of goodwill is not necessary in the interim period. Auditors may need to perform additional interim review procedures in such cases. Auditors need to ensure that they appropriately challenge judgments and assumptions made by management in preparing the interim financial information, especially those relating to accounting estimates.

Materiality Considerations and Evaluation of Misstatements

SRE 2410 describes that the procedures performed to update the auditor's understanding of the entity ordinarily include considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information.⁵ This consideration of materiality assists in determining the nature and extent of procedures to be performed in the review and evaluating the effect of misstatements.

The financial effects of the COVID-19 pandemic could result in a decrease to certain benchmarks used to determine materiality (e.g., profit before tax, total revenue or gross profit),⁶ which could have the effect of decreasing materiality from the latest audit of the annual financial statements of the entity. This may have a number of effects, such as:

- ❖ A decrease in materiality may give rise to uncorrected misstatements from the prior period, which were previously considered immaterial, having a material effect on the current period interim financial information. If uncorrected, the misstatements may impact the interim review conclusion. Refer to the heading "Departure from the Applicable Financial Reporting Framework," under the section "Reporting Considerations" below, for further information in this regard.
- ❖ A decrease in component materiality could affect the financial significance of components in a group audit.

The COVID-19 pandemic may also give rise to more disclosures in some areas, such as accounting estimates. Often these disclosures are qualitative in nature. In considering the

⁴ Paragraph 124 of Ind AS 36, Impairment of Assets.

⁵ Paragraph 15 of SRE 2410.

⁶ Paragraphs A2-A6 of SA 320, "Materiality in Planning and Performing an Audit", describe the use of benchmarks in determining materiality of the financial statements as a whole and may provide useful considerations.



adequacy of disclosures in light of the applicable financial reporting framework, and whether an adjustment is required to be made for the interim financial information to be prepared in accordance with the applicable financial reporting framework, the auditor may take into account factors such as the circumstances of the entity and the importance of the disclosures to the users of the interim financial information.

If changes in circumstances have made significant disclosures in the last annual financial statements less relevant, then the entity needs to consider providing additional disclosures in its interim financial information. Certain events and transactions resulting from the COVID-19 pandemic that may warrant additional disclosures include:

- ❖ Government grants.
- ❖ Write-down of inventories to net realisable value.
- ❖ Recognition of a loss from the impairment of financial assets, property, plant and equipment, right-of-use assets, intangible assets, contract assets, or other assets.
- ❖ Disposal of property, plant and equipment.
- ❖ Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities (regardless of whether they are recognised at fair value or amortised cost).
- ❖ Any default or breach of a loan agreement that has not been remedied on, or before, the end of the interim reporting period.
- ❖ Changes in the classification of financial assets as a result of a change in the purpose or use of those assets.
- ❖ Employee termination costs.
- ❖ Recognition of onerous contracts.
- ❖ Changes in contingent liabilities or assets.

Inquiries, Analytical and Other Review Procedures⁷

Given that an interim review is a limited assurance engagement, the nature of the procedures does not need to provide all the evidence that is required in an audit of financial statements. Inquiries, analytical and other review procedures provide a basis for forming a conclusion on the interim financial information. In the current environment, the analytical procedures and historical knowledge of the entity that the auditor relies on to become aware of any material adjustment that should be made to the interim financial information for it to be prepared in accordance with

⁷ Paragraphs 19-25 of SRE 2410.



the applicable financial reporting framework, should be supplemented with focused inquiries on the effects of COVID-19. It is also prudent to corroborate such inquiries with others, including individuals in collections, sales, legal, representatives in significant jurisdictions. The nature and extent of these procedures should be based on professional judgment, risk assessment, and assessment as to what is needed, to have a sufficient basis for the auditor's conclusion on the interim financial information.

While SRE 2410 describes that a review does not **ordinarily** require tests of the accounting records through inspection, observation or confirmation, in the current environment the procedures undertaken may be different (in nature, timing, and extent) to what may previously have been done in interim review engagements for the entity. For example, the auditor may determine it necessary and appropriate, depending on the facts and circumstances of the entity, to also perform procedures that involve inspection, observation, confirmation, recalculation or reperformance in order to be able to conclude on the interim financial information. The auditor applies professional judgment and exercises professional skepticism in determining whether the evidence obtained from the review procedures performed is sufficient and appropriate to provide a basis for the interim review conclusion. It is important for the auditor to be alert for information that may be considered contradictory to management's assertions.

The examples given below demonstrate how the COVID-19 pandemic may affect the nature, timing and extent of interim review procedures that are specifically described in SRE 2410⁸, which as described above, may also be affected by materiality considerations.

| Review procedure | Examples of the possible effect of the COVID-19 pandemic |
|--|---|
| <p>Group audits—Communicating with other auditors who are performing a review of the interim financial information of significant components</p> | <ul style="list-style-type: none"> ❖ COVID-19 may have a varying effect across the group, particularly when the group operates in diverse industries or multiple jurisdictions. As a result, there may be a need for increased communication with other auditors performing interim review procedures at components. ❖ A component that was identified as a non-significant component in the latest audit of the annual financial statements may have become significant due to a decrease in materiality |

⁸ Paragraph 21 of SRE 2410.



| | |
|--|---|
| | <p>thresholds used, or because it is now likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances.</p> |
| <p>Inquiring of members of management responsible for financial and accounting matters, and others as appropriate</p> | <ul style="list-style-type: none">❖ Inquiries of management would need to include the effect of COVID-19 on the preparation of the interim financial information in accordance with the applicable financial reporting framework. Examples of areas which may need to be addressed as part of the inquiries of management are highlighted earlier in this document under the heading “Areas of Focus in Performing the Review of Interim Financial Information.”❖ Given the increased need for management to apply judgment in formulating estimates in the current environment, inquiries may need to include matters such as:<ul style="list-style-type: none">➤ The estimation methods, assumptions and data inputs used by management in preparing the interim financial information.➤ The information used as a basis for the accounting estimates and how management has determined the reliability of such information in the current environment.➤ The intent and ability of management to carry out specific courses of action on behalf of the entity. |
| <p>Applying analytical procedures to the interim financial information that are designed to identify relationships and individual items that appear to be unusual,</p> | <ul style="list-style-type: none">❖ Period-over-period analytical procedures, while potentially less effective due to incomparable financial information, may still be useful. For example, if it is expected that the COVID-19 |



and may reflect a material misstatement in the interim financial information

pandemic has severely impacted the entity's results, the auditor may question if the financial information indicates there were no significant changes period-over-period.

- ❖ Auditors may be able to use analytical procedures if it is possible to develop expectations of the financial information that factor in the impact of the COVID-19 pandemic and other drivers affecting the entity. For example, expectations may be able to be developed using information and trends from the entity's industry.

Subsequent Events

Management's Responsibilities

In the current environment, management's determination and treatment of adjusting or non-adjusting events after the interim period are likely to be more challenging and involve more judgment. Ind AS 10, "Events after the Reporting Period" / AS 4, "Contingencies and Events Occurring After the Balance Sheet Date" provide guidance in this regard. According to Ind AS 10, (i) Adjusting events are those events that require adjustments to the amounts recognised in financial statements of the entity for the reporting period and (ii) Non-adjusting events are those events that do not require adjustments to the amounts recognised in financial statements of the entity for the reporting period. Similarly, in accordance with AS 4, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

Auditor's Responsibilities⁹

The uncertainties and challenges associated with the COVID-19 pandemic may give rise to increased management judgment with respect to subsequent events, and may affect the auditor's judgments when performing the review procedures. There may be a need to make additional inquiries or perform other procedures related to management's judgments with respect to subsequent events, such as inspection of underlying information supporting management's judgments.

⁹ Paragraph 26 of SRE 2410.



Management Representations¹⁰

In addition to the matters on which SRE 2410 requires the auditor to obtain representations, the auditor also may obtain representations as are appropriate related to other matters specific to the entity's business or industry. For example, the auditor may obtain representations from management regarding going concern in the current environment. In this regard, representations similar to those in paragraph 16(e) of SA 570(Revised) may be requested, such as management's plans for future actions and the feasibility of these plans. Further, the auditor may obtain representations from management that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Communication with Management and Those Charged with Governance¹¹

Regular and effective communication with management and those charged with governance is essential in the current environment because events and changes are occurring at a rapid pace and may impact the interim financial information being reported.

Going Concern

Management's Responsibilities

Management is responsible for assessing the entity's ability to continue as a going concern. The requirements in the financial reporting framework for management's assessment of going concern at the interim period are the same as the requirements in the financial reporting framework for the annual financial statements.¹² In light of the deteriorating economic environment resulting from the COVID-19 pandemic, entities may, for example, face reduced revenues and cash flows and therefore management's assessment of the entity's ability to continue as a going concern may be significantly affected. Management will have to reperform the going concern assessment made at the time of the last annual financial statements to reflect the changes that have taken place since then.

Financial reporting frameworks establish the period for which going concern needs to be considered. For example, Ind AS 1 describes that an entity shall consider the period of at least, but not limited to, twelve months from the end of the reporting period in their going concern assessment.¹³ The Framework for Preparation and Presentation of Financial Statements under

¹⁰ Paragraphs 34-35 of SRE 2410.

¹¹ Paragraphs 38-42 of SRE 2410.

¹² See, for example, paragraph 4 of Ind AS 1, Presentation of Financial Statements.

¹³ Paragraph 26 of Ind AS 1.



AS also prescribes that financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

Auditor's Responsibilities¹⁴

The effect of the COVID-19 pandemic on management's going concern assessment may result in the auditor:

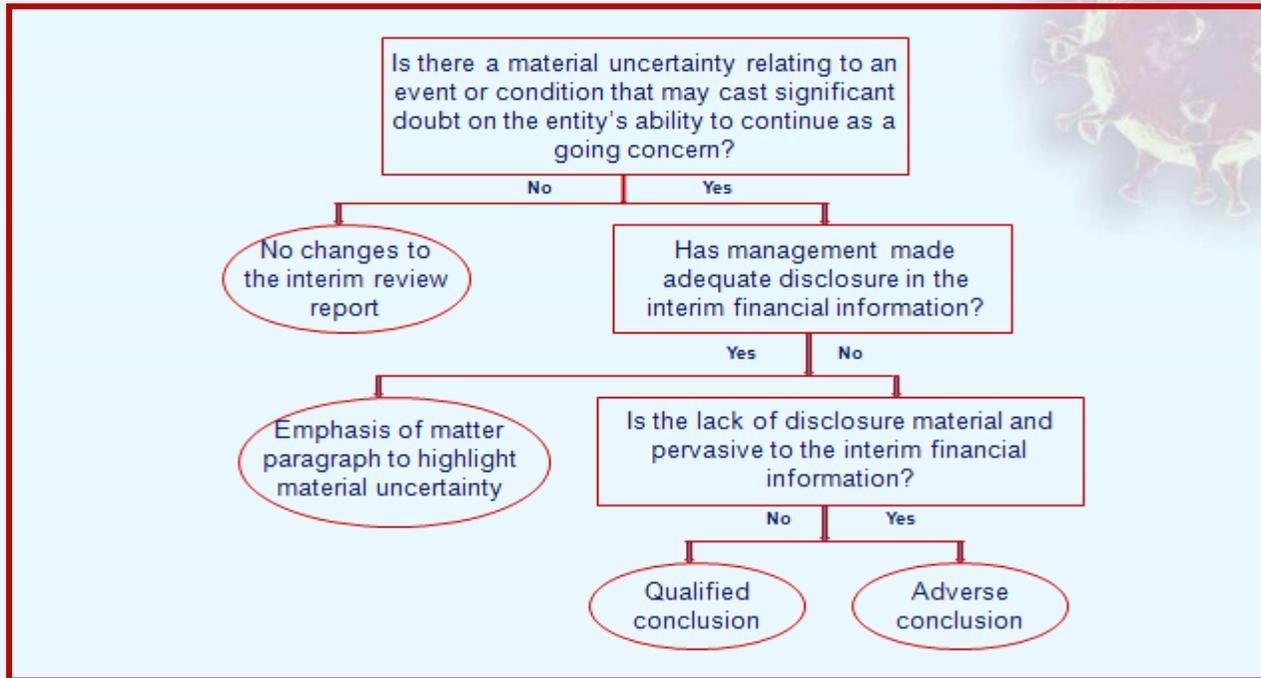
- ❖ Performing additional or enhanced procedures. While it is not ordinarily necessary in a review of interim financial information to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation, the auditor should exercise professional judgment and professional skepticism in determining the nature and extent of the procedures necessary in order to provide a basis for the interim review conclusion. For example, the auditor may determine it appropriate to hold inquiries with personnel other than accounting personnel, recalculate future cash flows or inspect key contracts.
- ❖ Reporting with respect to going concern in the interim review report (see the decision tree below).

As noted above, the period for which management is required to assess the going concern assumption is set out in the applicable financial reporting framework. SRE 2410 does not specify the period that the auditor should consider. In the current environment, it may be useful for the auditor to consider the related requirements of SA 570(Revised), "Going Concern", i.e., the auditor may use the same period as used by management, unless the period is less than 12 months. In case such period is less than 12 months, the auditor may request that management extend its assessment to 12 months from the date of the financial statements¹⁵ (i.e., in this case, the date of the interim financial information, which is the end of the interim period covered by the interim financial information).

If, based on the review procedures performed and taking into account the facts and circumstances of the entity, it is determined that a material uncertainty exists about the entity's ability to continue as a going concern, this will impact the interim review report. **Going concern reporting requirements differ between an interim review report prepared in accordance with SRE 2410, and an auditor's report prepared in accordance with the SAs.** The diagram below explains the considerations for interim review report with respect to going concern:

¹⁴ Paragraphs 27-28 and 56-59 of SRE 2410.

¹⁵ Paragraph 13 of SA 570(Revised).



Inclusion of an 'emphasis of matter' paragraph in a review report:

Inclusion of an emphasis of matter paragraph in the review report does not affect the auditor's conclusion but highlights a matter that is included in a note to the interim financial information that more extensively discusses the matter. For instance, a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. In that case, when the management has made adequate disclosures in the interim financial information about the material uncertainty, the auditor should add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern in accordance with Paragraph 56 of SRE 2410.

When the use of the going concern basis of accounting is inappropriate but the interim financial information has been prepared on that basis, the auditor should express an adverse conclusion.

Reporting Considerations

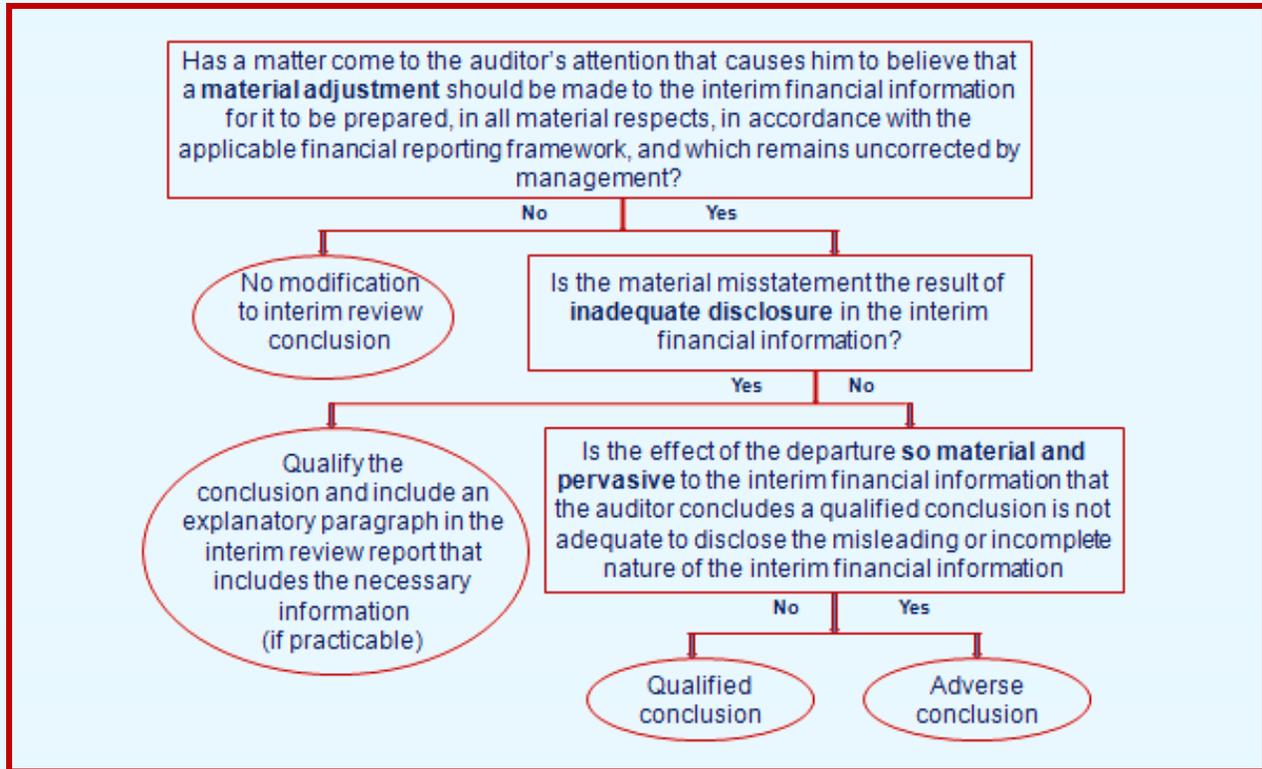
Departure from the Applicable Financial Reporting Framework¹⁶

Based on the results of the review procedures performed, the auditor may identify matters that require a material adjustment to the interim financial information for it to be prepared, in all

¹⁶ Paragraphs 45-47 of SRE 2410.



material respects, in accordance with the applicable financial reporting framework. Impacts of the COVID-19 pandemic may amplify conditions that give rise to certain material adjustments (e.g., inadequate disclosures or inappropriate application of accounting policies). The diagram below reflects the impact of a departure from the applicable financial reporting framework on the interim review report.



Scope Limitations¹⁷

In the current environment, there may be more circumstances where the review is unable to be completed due to a limitation on scope. For example, the auditor may not be able to perform inquiries or obtain information from management in a fully remote environment on a timely basis. As a result, there may be increased circumstances when the auditor is unable to issue the interim review report, or if required to issue the interim review report, may:

- ❖ Qualify the conclusion if the scope limitation is confined to one or more specific matters that are not pervasive to the interim financial information; or
- ❖ Disclaim a conclusion.

¹⁷ Paragraphs 48-54 of SRE 2410.



Emphasis of Matter Paragraphs¹⁸

Auditors are not precluded by SRE 2410 to include additional matters in the interim review report. In particular, the auditor may determine it necessary and appropriate to include an emphasis of matter paragraph to highlight other matters of significant uncertainty resulting from the effects of COVID-19, and which have been adequately disclosed in the interim financial information. For example, it may be determined appropriate to emphasize management's disclosures about:

- ❖ How the COVID-19 pandemic has affected the changes in financial position and performance of the entity since the end of the last annual reporting period.
- ❖ Certain accounting estimates (e.g., expected credit losses) that have significantly increased estimation uncertainty.
- ❖ Carrying values of significant assets are based on estimates which may be impacted due to changes in the economy / sector due to COVID-19.
- ❖ Significant losses recorded in the quarter due to impairment of assets and / or expected credit losses.
- ❖ Significant drop in revenue and profitability compared to the previous quarter and the corresponding quarter of previous year, as this may have a cascading impact on the impairment of assets, if this happens to be a key estimate.

Other Information

Paragraphs 36-37 of SRE 2410 describe the auditor's responsibilities for other information that accompanies the interim financial information. In particular, paragraph 36 describes the auditor's considerations in circumstances when management presents other information that more positively portrays the financial performance of the entity, and is given excessive prominence, is not clearly defined, or is not clearly reconciled to the interim financial information. The auditor may also need to consider whether the financial reporting framework restricts or prohibits management from presenting other information that has not been prepared in accordance with the applicable financial reporting framework as part of the interim financial information.

Auditors should exercise professional skepticism when reading the other information for the purpose of identifying material inconsistencies with the interim financial information.

¹⁸ Paragraphs 55 and 60 of SRE 2410.

