

COVID-19: Audit approach and key considerations

Background

With the recent rapid development of Coronavirus [COVID-19], many countries have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures.

These measures have significantly disrupted the activities of industries such as tourism, hospitality, transportation, retail, entertainment, manufacturing and the financial sector. These circumstances present Companies and Auditors with significant challenges particularly for the financial year ended March 31, 2020. The significant issues that may crop up for the businesses include impairment assessment resulting from financial losses, inventory valuation, disruption in supply chain management, volatility in valuations, recoverability of receivables, changes in risk assessment, covenant compliance and the impact on its 'going-concern'.

During periods of heightened uncertainty and market volatility, users will look for information in the financial statements as well as broader corporate reporting to better understand the effects these conditions may be having on the entity's financial performance and to understand the actions taken by management to respond to potential risks.

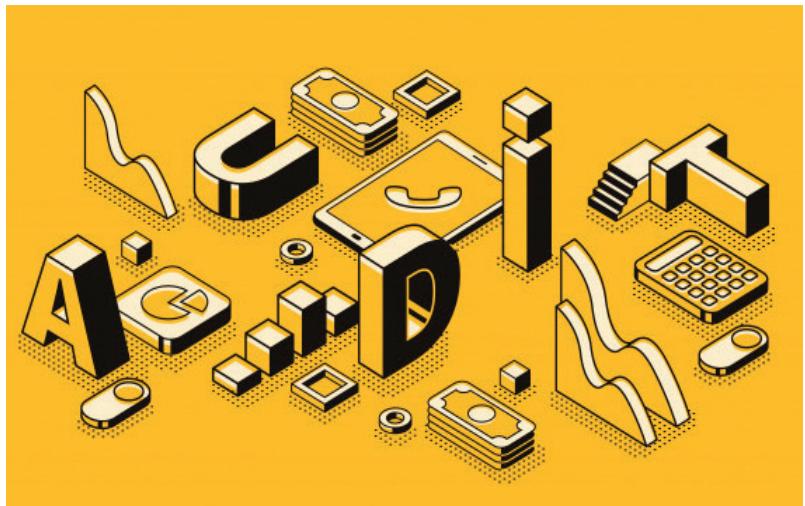


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This article discusses audit approach and certain key considerations to be made by the Auditor while assessing the impact of the COVID-19. The current situation is evolving at an unprecedented rate and these considerations will have to be revisited basis new developments. It is challenging at this juncture, to predict its duration, full extent and impact on the businesses.

The issues discussed in this article are by no means exhaustive and their applicability depends on the facts and circumstances of each entity.

Responsibilities of Those Charged with Governance (TCWG)

Against the backdrop of the COVID-19, it is critical that the TCWG and the board of directors understand the scope and extent of their statutory and fiduciary duties. As per SA 260(Revised)¹, it is the responsibility of TCWG to oversee the strategic direction of the entity and obligations related to the accountability of the entity.

- They should actively monitor the changing nature of the threat, anticipating and scenario

¹Communication with Those Charged with Governance

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testing how the spread of the COVID-19 is likely to affect their business and its stakeholders for example assessing the business continuity risk, in case supply chain is disrupted for any critical raw material, evaluating shortage of workforce and its impact etc.

- The impact of COVID-19 should be identified at an early stage of the financial reporting with the help of appropriate risk assessment procedures and actively communicated to relevant stakeholders, including the management, to assess and identify situations and requiring immediate actions and auditors, to enable them to plan the audit accordingly.
- Consider creating a special committee to monitor and assess the impacts of the COVID-19 and provide oversight to the company and its management.
- Ensure that monitoring and reporting protocols are in place to gather and provide the board with relevant and up-to-date information for all possible impacted areas including: inventory management, IT systems and cybersecurity, logistics, legal compliances, employee health and safety, cash flow management, credit capacity, customer outlooks, supply chains and such other areas that may be applicable to a particular business and industry. Any identified deficiencies in reporting protocols should

be addressed immediately.

- Seek expert advice and input as to how COVID-19 is impacting the company and what measures can be implemented

Audit Plans

Audit plans – both internal and external – may need to be revisited in the light of the uncertainty resulting from the COVID-19. In this context, the auditor must consider the following challenges:

- Whether they have focused on the right audit risks?
- How have the changes to the economic environment been factored into the audit plan and are the planned responses to risks and procedures still appropriate?
- What impact does the increased uncertainty and market volatility have on the scope of the audit?
- Consider whether the audit should be deploying more specialist expertise in the light of the impact on impairment, valuations, inventories, trade receivables and revenue and financial instruments?
- An entity's ability to actually present numbers that are robust and supportable.
- Availability of client staff to provide necessary explanation and supporting evidence.
- Ability of audit teams to visit client sites to conduct audit work.
- Ability to confirm reliability/authenticity

of scanned documents provided to enable remote auditing ; lack of access to original documents ; over-reliance on secondary sources of data.

- Ability to obtain sufficient appropriate audit evidence, including for example, obtaining external confirmation, attending physical stock counts etc.

With the above background, the following audit approach and considerations should be evaluated by the auditor:

1. Obtaining an understanding of the impact and evaluating reporting timelines

- The COVID-19 may disrupt the business operations of entities and the financial reporting process. Auditors should proactively discuss with management, and TCWG, including the audit committee, and the respective component auditors in the case of group audits to understand whether there is an impact on the client's reporting timetable and the audit processes along with the magnitude of the same. The auditor will need to assess the same, basis the nature and type of entity.
- Continuous and timely communication will ensure that the audit timetable is realistic and achievable.
- Consider if the entity needs to discuss any anticipated filing delays with regulators or other relevant authorities. It is noted that SEBI vide Circular No.

SEBI/HO/CFD/CMD1/
CIR/P/2020/38 dated
March 19,2020 has provided relaxations from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [SEBI (LODR),2015] due to the COVID -19. It *inter-alia* provides that filing under Regulation 33 of the SEBI (LODR),2015 relating to Financial Result has been relaxed for the quarter and financial year ended March 31, 2020 by 45 days and 1 month respectively. https://www.sebi.gov.in/legal/circulars/mar-2020/relaxation-from-compliance-with-certain-provisions-of-the-sebi-listing-obligations-and-disclosure-requirements-regulations-2015-due-to-the-covid-19-virus-pandemic_46360.html

The SEC & PCAOB are also closely monitoring the impact of the coronavirus on investors and capital markets and have issued statements in respect of revised filing timelines and impact on financial reporting.

1. *The SEC has provided conditional regulatory relief and assistance for companies affected by the Coronavirus Disease 2019 (COVID-19) To address potential compliance issues, the Commission has issued an order that, subject to certain conditions, provides publicly traded companies with an additional 45 days to file certain disclosure reports that would otherwise have been due between*

March 1 and April 30, 2020. Among other conditions, companies must convey through a current report a summary of why the relief is needed in their particular circumstances. <https://www.sec.gov/news/press-release/2020-53>

2. *Extract of the Statement on Continued Dialogue with Audit Firm Representatives on Audit Quality in China and Other Emerging Markets; Coronavirus — Reporting Considerations and Potential Relief issued by SEC & PCAOB jointly*
... Effects of the Coronavirus on Financial Reporting
In a January 30, 2020 statement, Chairman Clayton noted that the Commission staff would monitor, and to the extent appropriate, provide guidance and other assistance to issuers and other market participants regarding disclosures related to the current and potential effects of the coronavirus. That statement noted that actual effects may be difficult to assess or predict with meaningful precision both generally and on an industry- and issuer-specific bases.

As discussed above, U.S.-listed companies (including companies based in the U.S., companies based in China and companies based outside of the U.S. but not based in China) may have significant operations in China and other jurisdictions that may be affected by the

coronavirus. In addition, companies that do not themselves have operations in China or other potentially affected jurisdictions may depend on companies that do have operations in those jurisdictions, including, for example, as suppliers, distributors and/or customers.

In our recent dialogue with the senior leaders of the largest U.S. audit firms, we also discussed this potential exposure of companies to the effects of the coronavirus and the impact that exposure could have on financial disclosures and audit quality, including, for example, audit firm access to information and company personnel. This remains a dynamic situation where the effects on any particular company may be difficult to assess or predict, because actual effects may depend on factors beyond the control and knowledge of issuers. However, how issuers plan and respond to the events as they unfold can be material to an investment decision, and we urge issuers to work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements.

Specifically, we emphasized:
(1) the need to consider potential disclosure of subsequent events in the notes to the financial

statements in accordance with guidance included in Accounting Standards Codification 855, Subsequent Events and our general policy to grant appropriate relief from filing deadlines in situations where, in light of circumstances beyond the control of the issuer, filings cannot be completed on time with appropriate review and attention.....”

<https://www.sec.gov/news/public-statement/statement-audit-quality-china-2020-02-19>

2. Assessing risk and exercising professional skepticism

- Auditors may need to identify and reassess the risks of material misstatement of the financial statements as the information on which the initial risk assessment was based may have changed. Auditors should exercise professional skepticism when considering this assessment.
- This will have the potential to materially affect the operations of the client or its financial statements. Accordingly, the auditors should evaluate the impact and modify planned audit procedures accordingly in line with SA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*
- In the present circumstances, it is important that auditor's do not view risk assessment

to be solely a planning activity and that the risks of material misstatement of the entity's FSLIs and related disclosures are reassessed, at the assertion level, even as they near completion of the audit.

- Thus, the auditors will need to remain agile in considering and reconsidering, throughout the audit, the risk assessment at the financial statement and FSLI assertion level and make any necessary updates to the risk assessment.
- Following may need to be evaluated:
 - The assessment by TCWG and management as to whether risks from COVID-19 could be material, including whether users reasonably expect COVID-19 to impact the entity.
 - Any new risk that was not assessed during the planning phase;
 - Any risk assessed during planning stage that now becomes a significant risk and any additional work to address the significant risk

Some of the common areas where risks may need to be reassessed include, but are not limited to include Goodwill and intangible asset impairment, Valuation of accounts receivable (loss allowance for expected credit losses), Property, plant and equipment impairment,

Inventory obsolescence/waste, Debt covenant compliance, Contractual penalty clause liabilities. It is likely that the nature and extent of our audit procedures will need to be updated to address new and reassessed risks.

The FRC has also issued advice to companies & auditors on Coronavirus risk disclosures. Extract of the same is reproduced below.

We encourage companies to consider carefully what disclosures they might need to include in their year-end accounts relating to these events. The extent of the risk and the degree to which it might crystallise depends on companies' specific business circumstances. These could include, for example, extensive operations or manufacturing in China, with consequential staff shortages and production delays. Other entities might not have a presence in the country but might have significant trading links or global supply chains that are dependent on Chinese manufactured goods being exported to the UK or elsewhere.

Companies should consider whether to refer to the possible impact of COVID-19 on their business in their reporting of principal risks and uncertainties. Where mitigating actions can be taken, these should also be reported alongside the description of the risk itself. As well as possible inclusion within a company's disclosures of principal risks and uncertainties, the carrying value of assets and liabilities might also be affected with a need to perform additional impairment

tests and to assess whether leases have become onerous. ..."

<https://www.frc.org.uk/getattachment/34d2e9a7-b73e-41b6-a9ae-5f0a7a69dbc4/Coronavirus-draft-para-17-Feb.pdf>

3. Internal Control

If the entity's personnel are working remotely, in many circumstances this will mean that the design and operation of internal controls will either need to change or will no longer be as effective. Similar to risk assessment, these changes may occur at any stage during the audit period or during any phase of the audit. The planned audit response will likely require revision to obtain more substantive audit evidence since we cannot rely on the controls for audit evidence in the later part of the audit period which is impacted by the COVID-19. If the level of expected controls reliance changes, it is important to document this and any other resulting changes to the planned audit response.

4. Obtaining sufficient and appropriate audit evidence

Due to the travel restrictions , auditors may have difficulties in accessing client premises to perform procedures (e.g. client's warehouse may be closed or auditors may not be able to travel and observe client's inventory counts) and/ or may not be able to obtain the anticipated audit evidence (e.g. significant delay in the provision of audit confirmations).

Despite the potential delay or difficulties in accessing client premises or information,

auditors will still need to obtain sufficient appropriate audit evidence in accordance with SA 500 to enable them to draw reasonable conclusions on which to base the auditor's opinions and to comply with the auditing standards to ensure the quality of the audit is maintained. If it is not possible to do so, the auditor will have to consider modifying the opinion in the auditor's report in accordance with SA 705(Revised).

In this regard, the auditor may consider the following:

- **Conducting inventory stock count is impracticable** - SA 501² requires auditor to observe some physical inventory counts on an alternative date if the attendance of physical counting cannot be performed at the year-end date or perform alternative audit procedures where attendance of physical inventory counts is impracticable. If it is not feasible to conduct the stock count on the reporting date and there is large time gap between the reporting date and date of inventory count, it will become challenging for the auditor to conduct roll-back procedures to identify inventory existing as on March 31, 2020.
- The auditor will need to consider whether the systems, processes and controls over inventories that will be maintained by the entity until the date of the next inventory count would be sufficiently effective to allow them to perform the observation of inventory at a later date and perform tests of activity and controls in the roll-back period.
- In the event that the auditor is not able to obtain sufficient and appropriate evidence regarding the existence and condition of inventory, the auditor will have to evaluate reporting implications.
- **Non receipt/delay of confirmations** - Consider performing alternative audit procedures when significant delay in the provision of audit confirmations, in line with SA 505³; The auditor may consider obtaining scanned copies of replies where possible for advance checking and documentation on the audit file. However this should not be a substitute for obtaining original copies.
- **Authenticity of documents** - As with any heightened risk, the nature and extent of procedures performed to verify authenticity of documents (scanned versions of third-party documents/received vide secondary sources etc.) needs to increase.
- Consider any **scope limitation** that may lead to a modified audit opinion
- **Remote access** – As part of disaster management to meet this urgent and sever health exigency, all Companies/ LLPs are strongly advised by MCA to put in place

²Audit Evidence - Specific Considerations for Selected Items
³External Confirmations

an immediate plan to implement the “Work from home” policy as a temporary measure till March 31,2020 and conduct meeting through video conference/electronic/telephonic/computerized means. The Companies/LLPs are also required to confirm their readiness to deal with the COVID-19 via the web form named CAR (Company Affirmation of Readiness towards COVID-19):

- When connecting with clients there are a number of options (Google meet/webex/Skype for business/Zoom) that are available through your PC or your mobile device that allow you to talk securely and share screen images. If client has access to supporting documents, obtain scanned copies of documents for advance checking and population of work papers.
- Verification of scanned copies back to original documents will be required prior to signing our audit opinion, among other items this includes original copies of supporting evidence received for tests of detail, control testing, and journal entry testing.
- Ensure clear communication with the client and prioritise the follow up procedures required.

Obtaining audit evidence via remote access	
Illustrative list of requirements for key areas	Approach
<ol style="list-style-type: none"> 1. Financial Statements, with all Notes and Cash flow Statement; Trial Balance; Variation analysis 2. Property, plant and equipment: Fixed Assets register showing full particulars, including quantitative details and location of fixed assets; List of additions/deletions to fixed assets during the year ; CWIP listing ; Physical Verification Report 3. Investment movement schedule; Details of gain / loss on disposal ; Impairment working 4. Inventory ageing report, Quantitative reconciliation of finished goods, raw materials, Details of Goods in Transit as on March 31 along with subsequent clearance, Cost vs NRV comparison, Details of Inventory written off during the year along with approvals 5. Accounts receivable : Customer wise aged accounts receivables listing, Details of provision for doubtful debts as on March 31 and Party wise movement in provision, List of debtors written off during the year, detailed listing of subsequent collections 6. Cash and cash equivalents : Certificate / physical verification working paper for cash / cheques in hand as on March 31 , Bank matrix and Bank reconciliation as on March 31 with subsequent clearance dates for all reconciling items, Movement and Details of Bank Guarantee/Fixed deposits for additions and refund during the year 7. Samples to be received for vendor invoices, capex approvals, evidence supporting capitalisation dates - installation certificates, useful lives in case of PPE ;agreements and share certificates in case of investments, dispatch / delivery documents for inventory, loan agreements 	Can be received remotely through email or other secure network.
	Scanned copies may initially be obtained via e-mail, however original documents, as applicable, need to be seen prior to sign-off.

<p>8. Confirmation requests for Investments, Accounts receivable, Cash and cash equivalents, Borrowings ,Accounts payable</p>	<p>Prepare the confirmation requests for circularisation remotely. Thereafter, organise a visit to the client/send by courier, to get all the confirmation requests signed by the authorised representative and then courier the same from our office, under our control. This envisages travel / physical interaction, which should be planned well in advance to avoid multiple visits. Every effort should be made to reduce the number of physical interactions.</p>
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1. The SEC Staff provided guidance to Promote Continued Shareholder Engagement, Including at Virtual Annual Meetings, for Companies and Funds Affected by the Coronavirus Disease 2019 (COVID-19).

It states that the spread of COVID-19 has affected the ability to hold these in-person meetings due to health, transportation, and other logistical issues. In light of these difficulties, the staff guidance provides regulatory flexibility to companies seeking to change the date and location of the meetings and use new technologies, such as “virtual” shareholder meetings that avoid the need for in-person shareholder attendance, while at the same time ensuring that shareholders and other market participants are informed of any changes.

Under the guidance, the affected parties can announce in filings made with the SEC the changes in the meeting date or location or the use of “virtual” meetings without incurring the cost of additional physical mailing of proxy materials. The guidance also encourages companies to provide shareholder proponents with alternative means, such as by telephone, to present their proposals at the annual meetings in light of the difficulties that shareholder proponents face due

to COVID-19. <https://www.sec.gov/news/press-release/2020-62>

2. Notice regarding Board meetings under the Companies Act, 2013 issued by MCA

Reg: Board meetings under the Companies Act, 2013: Considering the need to take precautionary steps to overcome the outbreak of the coronavirus (Covid-19), the Government has in-principle decided to relax the requirement of holding Board meetings with physical presence of directors under section 173 (2) r/wread with rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 for approval of the annual financial statements, Board's report, etc. Such meetings may till 30th June, 2020 be held through video conferencing or other audio visual means by duly ensuring compliance of rule 3 of the said rules. The necessary changes in the rules in this regard are expected to be notified soon. http://www.mca.gov.in/Ministry/pdf/Meeting_18032020.pdf

5. Impairments and valuations

- Valuations, measurements and recoverable amount calculations that use market inputs should reflect market data at the balance sheet date. If valuation techniques and estimates are applied, cash flow models for impairment testing will likely require a wider

range of outcomes than usual to reflect a broad spectrum of possible scenarios.

The consequences of the COVID-19 may have a potential adverse impact on cashflows and trigger an impairment test. Annual tests of goodwill and indefinite lived intangibles carried out earlier in the period might need updating for year-end reporting and cash flow forecasts should reflect the potential impact of the uncertainty on account of the COVID-19. Volatile share prices might drive market capitalization below net asset value and trigger an impairment test.

The auditor should consider the following:

- Increased risk and uncertainty should be factored into the impairment test. Budgets and forecasts from an earlier date and used to determine the recoverable amount will need to be revised to reflect the economic conditions at the balance sheet date. An expected cash flow approach (multiple probability-weighted scenarios) might be more appropriate to estimate the recoverable amount

than a traditional approach (single predicted outcome) to capture the increased risk and uncertainty.

- Ensure whether the discount rate requires any adjustment on account of various factors like country risk etc.
- Future cash flows are estimated in the currency in which they arise using a discount rate in that currency. Any additional volatility in the exchange rates could change the recoverable amount calculations.
- Reliable forecasts to calculate value in use or fair value less costs to dispose over the next few years, and in particular the terminal year, will likely be subject to significant uncertainty that might not be resolved in the near future.
- The assumptions made should reflect market participant assumptions and the outcome should reflect the expected present value of the future cash flows

6. Subsidiaries, associates and joint ventures measured at fair value

The fair values of investment entities, associates and joint ventures measured at fair value might be affected by equity market volatility. The starting point for valuations of listed companies are the market prices as at the reporting date for the number of shares held.

The auditor should ensure that entities have disclosed changes in business or economic circumstances that affect the fair value of investment entities or investments in associates and joint ventures carried at fair value under Ind AS 109.

7. Valuation of Financial instruments

The volatility of prices on various markets has increased since the COVID-19. This affects the fair value measurement either directly - if fair value is determined based on market prices (for example, in case of shares or debt securities traded on an active market) or indirectly - if the valuation technique is based on inputs that are derived from volatile markets.

In this case, the auditor might need to involve an expert to evaluate the inputs and assumptions used in valuation.

8. Inventory valuation

The current economic conditions might make it necessary to write-down inventories to net realisable value.

These write-downs could be due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales.

In particular, entities with property under development classified as inventory could be impacted by a fall in property prices. In some industries, like Consumer electronics, Pharmaceutical & Medicines the prices will be volatile owing to disruption in supply. The auditor should ensure that the market conditions have been factored in, while valuing the inventory.

9. Property, Plant and Equipment

The property, plant and equipment might be under-utilised or not utilised for a period or the capital projects may be suspended. The auditor will need to assess

- Whether depreciation continues to be charged while

an asset is temporarily idle in accordance with Ind AS 16

- Whether there are any impairment indicators.

10. Debt

Companies may need to seek additional financing or amend the terms of existing debt agreements due to lost revenue, uninsured losses, or losses for which insurance recoveries have not yet been received. In that case, a company may seek to amend the terms of an existing debt agreement with its lenders to temporarily or permanently increase borrowing capacity, change the interest rate, or modify other contractual terms of the agreement.

The auditor will need to analyse such modifications to determine whether they represent a troubled debt restructuring, a debt modification or potentially a debt extinguishment, each of which has separate accounting implications.

11. Revenue recognition

An entity's sales and revenue might decline as a result of the reduced economic activity. It could also affect the assumptions made by management in measuring the revenue from goods or services already delivered and in particular on the measurement of variable consideration. For example, reduced demand could lead to an increase in expected returns, additional price concessions, reduced volume discounts, penalties for late delivery or a reduction in the prices that can be obtained by a customer.

The auditor will have to evaluate the changed circumstances and terms with customers to identify the possible impact on revenue to be recognized.

12. Provisions, Employee benefits and share-based payments

The relevant standards require estimates of provisions to be updated at each balance sheet date based on expectations and market conditions.

The auditor should review existing provisions, including employee benefits and cash-settled share-based payments should be to ensure management has evaluated and updated:

- Requirement for additional provision
- Discount rates for market movements;
- Expected cash flows for changes in assumptions, including the impact of exchange rate volatility and possible changes in inflation expectations.
- Plan assets for defined-benefit pensions to reflect fair value at the balance sheet date.
- The expectations for the outcome of performance conditions on share-based payments
- The fair values of liabilities with respect to cash settled share-based payment plans may change

The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations - AASB-AUASB JOINT FAQ MARCH 2020

..QB2: How to audit the financial effect of COVID-19?

The direct financial impacts are likely to involve accounting estimates prepared by management. Significant assumptions including projected cash flows, used in these accounting estimates may be affected by the COVID-19 event.

If your audit client has significant amounts of direct financial impacts that contain estimation uncertainty, the risk assessment and audit evidence supporting these accounting estimates and related disclosures may be affected by the COVID-19 event. Refer to ASA 540 Auditing Accounting Estimates and Related Disclosures for requirements..."

https://www.auasb.gov.au/admin/file/content102/c3/AASB19009_COVID19_FA.pdf

13. Group audits with significant components in affected territories (Mainland China, Italy, US etc.)

Consequent to the imposition of travel restrictions, as well as preventive and containment measures, in response to the COVID-19, certain component auditors are facing difficulties in commencing and completing their audits on schedule.

Consequently, the group auditors are unable to obtain necessary information from component auditors as per agreed timelines.

In this regard, following may need to be considered by the Group auditor:

- Communicate with component auditors as soon as practicable to discuss potential impacts arising from the COVID-19 and finalise revised timelines.
- Advise them on the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them in line with SA 600;
- Consider any increased risk and requirement to revise the risk assessment, audit strategy and plan;
- Can video calls and/or screen sharing software be used to

communicate and discuss matters with the component auditor?

- Can the component auditor be asked to complete a detailed COVID assessment questionnaire/checklist on the work they have performed?
- It needs to be noted that each individual engagement will need to be assessed on a case by case basis to determine what may be appropriate.

14. Evaluate contracts with Suppliers and Customers

Suppliers to contracts may seek to delay and/or avoid performance (or liability for non-performance) of their contractual obligations and/or terminate contracts.

Further, companies may not be able to perform their obligations under their customer agreements because of their supplier's non-performance and may in turn seek to delay and/or avoid performance (or liability for nonperformance) of their contractual obligations and/or terminate contracts.

Parties may also request for renegotiation of price or other key contractual provisions (e.g. volume of materials exported from or imported into affected areas due to shifts in supply and demand)

In this case, auditors should identify such contracts and the impact of the same on the financial statements.

15. Going concern assessment

The COVID-19 has caused a significant impact on the economic conditions for some entities by interrupting supply chains and increasing uncertainty on asset valuation, cash flows and / or projected financial information of the entity. This

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may affect the assessment of the entity's ability to continue as a going concern.

When preparing financial statements, management is required to make an assessment of an entity's ability to continue as a going concern. In line with SA 570 (Revised), the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions.

However, in this regard, following may be considered

- Evaluate management's assessment of the entity's ability to continue as a going concern and consider whether management's assessment includes all relevant information which auditors are aware of as a result of the audit; management's assessment should be performed up to the date of the issuance of the financial statements.
- Following questions may enable the assessment

- Does the Company have operations, personnel, third-party service providers, customers, manufacturers or suppliers in areas significantly impacted by the coronavirus?
- Does the Company have large inventory and supply reserves to continue business operations in the event of a supply chain disruption?
- Is alternative product sourcing available if the Company cannot access our usual supply source?
- Are adequate sources of funding available? To what extent are they affected?
- Will employee quarantine significantly impact productivity and output?
- Will the Company be in violation of customer or vendor agreements if stock levels drop below established thresholds or we cannot meet minimum commitments or other contractual obligations?
- Have the Company updated its forecasts to reflect new assumptions such as reduced customer demand or higher supply chain costs? Do the revised forecasts suggest that the Company will not be able to continue as a going concern?
- Does the insurance

sufficiently cover business disruptions for the Company?

- Consider inquiring from the management as to its knowledge of the events or conditions beyond the period of management's assessment, which is at least but not limited to twelve months from the end of the reporting period;
- Maintain professional skepticism and objectively challenge management's plans and significant assumptions on events or conditions affecting the entity and its environment, including uncertainties associated with the COVID-19;
- Evaluate the adequacy of the disclosures related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

As was considered by auditors in the case of Brexit, in case the auditor has decided that the Going Concern assumption of the management is appropriate, the auditor may wish to highlight that since, not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the impact and duration of the COVID-19 are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

16. Tailoring the disclosures

The auditor should ensure that the management has provided

detailed and entity specific disclosure of the COVID-19 related risks in the accounts to explain the judgements taken, assumptions made and the impact on the entity's operations. The entities should disclose information about the specific and direct challenges to their business model and operations, as distinct from information about broader economic uncertainties.

17. Implications on the auditor's report

In addition to the above areas, auditors will be required to consider the implications for the auditor's report.

- Revisit the Key Audit Matters to be disclosed in the auditor's report and see if any need to be updated to reflect new responses [SA 701, Communicating Key audit matters in the Independent Auditor's Report]
- Depending on the circumstances, consider whether to include a separate section "Material Uncertainty Related to Going Concern" in the auditor's report [SA 570(Revised) Going Concern]
- Depending on the resolution of accounting and auditing matters or insufficient audit evidence due to the impact of COVID-19, consider whether to express a modified opinion in accordance with SA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report;
- It is management's responsibility to make appropriate adjustments to the financial statements and include necessary disclosures, such as disclosures of subsequent events, risks and uncertainties, and how events and circumstances may impact future operating results, cash flows and financial position. Other disclosures may include business risk factors and management's discussion and analysis of results, liquidity, and capital resources. For those entities that are materially affected and auditor has concluded that the disclosures management has made in the financial statements are not considered adequate or appropriate in the circumstances, consider impact on the audit report.
- Other information that accompanies the financial statements may include additional discussion of risks associated with the COVID-19, consider whether there is a material inconsistency between this other information and the financial statements and report in accordance with SA 720 (Revised), The Auditor's Responsibilities Relating to Other Information.
- Reporting on the CARO will also have to be assessed accordingly.

Conclusion

While the full impact of the COVID-19 on businesses is not clear at the moment, and it is

likely to spread in the coming days, this is an issue which is seemingly becoming critical by the hour and accordingly, the auditor should ensure prompt communication with management and TCWG with respect to significant matters like difficulties encountered during the audit, potential delays in the auditor's reporting and expected modifications to the auditor's report.

SA 200 provides that to obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

The auditor will be required to form an opinion on whether the financial statements for the year ended March 31, 2020 are prepared, in all material respects, in accordance with the applicable financial reporting framework. This requires an independent examination of evidence which may be challenging, as currently the auditors may be largely relying on remote access to the scanned documents, reliance on secondary sources, alternate procedures and roll back procedures (including physical verification of inventory) etc. In the above scenario, the Accounting & Auditing Advisory on Impact of Corona Virus on Financial Reporting and the Auditors Consideration issued by ICAI will also help members in assessing the impact and reporting implications of the COVID-19. ■