



AUDIT IMPLICATIONS OF THE CORONAVIRUS

AUDIT IMPLICATIONS AND RESULTANT CONSIDERATIONS FROM THE CORONAVIRUS (COVID-19) - 20 March 2020

This guidance has been prepared by professionals from our Global A&A and Risk, Quality & Governance functions. If you have suggestions for other implications, suggestions and sources of guidance that would be helpful to communicate across the network, please contact audit@bdo.global.

This guidance supplements, and should be read in conjunction with, the communication [Audit Implications and Resultant Considerations from the Coronavirus \(COVID-19\)](#) issued by GO Audit Communications on 16 March 2020. It covers heightened and new financial reporting risks, going concern assessment and disclosure, other information requirements, implications for audit reports, and other engagement considerations. Details are provided below about how to access further guidance.

Heightened and new financial reporting risks

IFRS Practice Alert 2020/03 - [Potential effects of the Coronavirus Outbreak on 2020 reporting periods and onward](#) was issued on 18 March 2020.

Financial reporting implications for entities may be broad, and the precise effects will depend on the facts and circumstances of each entity. There are financial reporting considerations that entities and engagement teams should consider in respect of: general financial statement presentation, measurement and disclosures; impairment of assets and provisions; other financial reporting areas where changed circumstances may affect rights and obligations; and the going concern basis of accounting and related disclosure of material uncertainty.

Going concern assessment, disclosure and audit reports

We have included below a reminder of the key requirements related to going concern and considered what might arise in connection with the coronavirus outbreak and related business interruption.

Financial statements in accordance with IFRS, and many other financial reporting frameworks, are prepared on a going concern basis of accounting, unless management intends either to liquidate the entity or to cease trading, or there is no realistic alternative but to do so.

We consider below the requirements of IFRS and ISAs; similar considerations may apply in other financial reporting frameworks.

Management's responsibilities include to:

- Make an assessment of an entity's ability to continue as a going concern (i.e. its continued ability to adopt the going concern basis of accounting)
- Provide appropriate disclosures relating to how that assessment was performed and its results
- Disclose any material¹ uncertainties relating to events or conditions that might cast significant doubt on the use of the going concern basis of accounting.

The assessment of going concern is likely to be significantly affected by the unprecedented impact of the coronavirus outbreak on management's abilities and intentions and/or the trading prospects of the audited entity. Likewise, the unprecedented and uncertain ongoing effects of the virus are likely to affect the level of uncertainty.

Auditors are required to:

- Obtain sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements
- Conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
- To report accordingly (see below). There are implications for the auditor's report where the auditor concludes that a material uncertainty exists and also where the auditor disagrees with management's use of the going concern basis of accounting or the adequacy of the disclosures in the financial statements.

Management's going concern assessment - available information

In making the going concern assessment, management considers all available information about the future (which must extend at least 12 months from the period end. In some jurisdictions, local regulatory requirements require consideration to be given to a period of at least twelve months from the date of approval of the financial statements. This means that in those jurisdictions the 'look forward' period will be longer than that required by IFRS).

Emerging evidence about the impact of the coronavirus on the appropriateness of the going concern assessment and related material uncertainty will need to be considered right up until management approves the financial statements and the audit report is issued.

There may be difficulties in obtaining information and evidence for the required minimum period. Nonetheless the audit of the going concern assumption must cover evidence over the same period as management used to make their assessment. If the period of management's assessment is less than 12 months, the auditor is required to ask management to extend the period, and to consider whether it is necessary to provide a modified audit opinion or disclose this fact in the auditor's report.

In some circumstances, management may not have prepared a going concern assessment. Auditing standards contemplate that the auditor makes relevant inquiries and performs audit procedures, and might nonetheless obtain sufficient appropriate audit evidence to audit the appropriateness of the going concern assumption. Given the nature and circumstances of the impact of coronavirus, and

¹ Uncertainties should be considered material, and therefore disclosed, if their disclosure could reasonably be expected to affect the economic decisions of users of the financial statements.

wider challenges in obtaining audit evidence, it is unlikely to be possible for the auditor to be able to audit the going concern assumption without management carrying out an assessment. Where no such assessment is prepared, and audit procedures do not provide the required evidence, it may be necessary to disclaim an opinion.

The going concern assessment - sufficiency and appropriateness of audit evidence, professional skepticism

Auditors consider whether management's going concern assessment includes all relevant information of which the auditor is aware as a result of the audit. Auditors are expected to remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Accordingly, auditors should be robust and skeptical in their audit of the going concern assessment, holding firm as to the need for sufficient appropriate audit evidence.

Assessments and forecasts prepared before the spread of the virus was recognized as a pandemic are highly unlikely to provide an adequate basis for management's going concern assessment or the audit of it. Management's assessment of going concern under the unprecedented effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. Decreases in asset values, decline in demand for goods and services and supply chain disruptions may be dissimilar to any previously encountered 'real world' scenario, making forecasting uncertain.

While the requirements of IAS 1 are not prescriptive as to how management's assessment is performed, in circumstances where significant uncertainty exists surrounding the outcome of future events, it may be appropriate to model multiple scenarios and weigh their likelihood. In some sectors, 'worst case' scenarios included in an assessment may have to consider little to no revenue for extended periods of time if entities are required to cease operations. 'Negative' or 'worst case' scenarios may also need to be weighted quite heavily due to the level of uncertainty as to how the effects of the outbreak will unfold and how long they will endure.

Conclusion that the going concern basis is not appropriate

Management may conclude that the going concern basis of accounting is no longer appropriate. Such a conclusion has been rare, but these are unprecedented circumstances. In these cases, management should make an explicit statement that the adoption of the going concern basis of accounting is not considered appropriate, disclose the basis of accounting adopted and make any other disclosures necessary to comply with the requirements of the financial reporting framework. Auditors need to carefully consider audit risks related to management's adoption of a different basis of accounting, both regarding its appropriateness and whether management has implemented it properly. For situations where a different basis of accounting has been adopted by management, engagement teams should consult following protocols established by their firm.

The going concern assessment - material uncertainty assessment

Where the impact of the virus casts significant doubt on the entity's ability to continue as a going concern, the auditor needs to do further work to determine whether or not a material uncertainty exists related to the impact of the virus (referred to as 'material uncertainty'). Such further work includes consideration of mitigating factors and evaluating management's plans for future actions.

In particular:

- Evaluate the reliability of the underlying data generated to prepare management's forecasts.

- Determine whether there is adequate support for the assumptions underlying the forecast in the context of the overall economic environment and conditions, and the engagement team's understanding of the entity, including:
 - The jurisdictions in which the entity has significant operations, and those where there may be possible governmental support
 - The sector/sectors that the entity operates in and is exposed to
 - Its significant contractual arrangements and obligations
 - Restrictions on operations and movement may be in place for an extended period of time and may increase in the future.

Look out for management bias in forecast assumptions.

- Test key computations and controls (if any), particularly given increased scope for misstatement as a result of fraud or error.
- Think widely - for example, consider implications and mitigating actions in respect of:
 - Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment
 - Reliance on short-term borrowings which may not be forthcoming
 - Negative operating cash flows as liabilities are settled and cash inflows are adversely affected
 - Significant deterioration in the value of assets used to generate cash flows or provided as security for borrowings
 - Shortages of important supplies
 - Unavailability of important distribution channels for the entity's products or services
 - Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions
 - The potential unavailability of insurance.
- In some circumstances it may be necessary to request written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (We will be making example paragraphs available soon).

Going concern disclosure and audit report implications

In connection with the going concern assumption, where management has concluded that there is a material uncertainty and the auditor has concluded likewise, the auditor also has a specific requirement to determine whether the financial statements disclose clearly that there is a material uncertainty relating to going concern.

Clear going concern disclosure related to the coronavirus outbreak and its impact might include:

- The impact on the entity of the virus and assumptions about its future impact
- The sources of assumed liquidity and cash flows, especially in instances where the entity does not have access to sufficient funds and financing to continue operations is based on current contractual arrangements
- Assumptions surrounding compliance with covenants, contractual agreements and/or regulatory requirements
- Forecasts of future revenue, especially in instances where demand for the entity's primary products or services may be significantly reduced, where important sources of supply or distribution are not available, or where its workforce is not able to produce goods or offer services.

Auditors need to ensure that sufficient and appropriate disclosures have been made and if not, make appropriate modifications to the auditor's report (see below).

In the unprecedented circumstances of the coronavirus, it is expected that there will be more instances of material uncertainty disclosure than previously. Nonetheless it may be that there is no material uncertainty for some audited entities (i.e., there may be increased opportunities rather than doubts). Consider the appropriateness of disclosure about the coronavirus impact and in cases where the conclusion that there is no material uncertainty is unexpected, it may be helpful to consider providing further information in a Key Audit Matter (KAM).

When adequate disclosure about material uncertainty related to going concern has been made in the financial statements, the auditor shall express an unmodified opinion and include a separate section in the audit report under the heading 'Material Uncertainty Related to Going Concern'. This paragraph shall refer to the note in the financial statements regarding the material uncertainty. It shall also state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

If adequate disclosure about the material uncertainty related to going concern is not made in the financial statements, the auditor shall express either a qualified or adverse opinion for non-compliance with the financial reporting framework, depending on the pervasiveness of the issues. In the Basis for Qualified (or Adverse) Opinion section of the audit report, the auditor shall state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

If financial statements are prepared on a going concern basis but this is determined to be inappropriate, the auditor shall express an adverse opinion.

As noted above, where no going concern assessment is prepared by management, it may be necessary to provide a disclaimer of opinion.

As noted in prior guidance, where the challenges of obtaining sufficient appropriate audit evidence are pervasive and insurmountable, and audit risk cannot be reduced to an acceptable level, a disclaimer of opinion may be the only option available. Where the inability to obtain sufficient appropriate audit evidence is not pervasive, a qualified opinion for a scope limitation may be possible.

Other information requirements

Disclosures about the effects of the coronavirus outbreak are likely to appear in the narrative sections of annual reports, where prepared. As required by ISA 720², engagement teams need to ensure that those disclosures are consistent with those made in the financial statements, and with wider current and forecasted economic and other conditions.

Further guidance on implications for audit reports

As mentioned in our [communication on 16 March](#) and above, the coronavirus outbreak could affect audit reports in several ways. Going concern implications and their impact on the audit report are considered in an earlier section. Additional audit report implications are described below. For all of these scenarios, we are developing sample audit report wording (i.e., sample modified opinions, EOMs and KAMs) which

² ISA 720, *The Auditor's Responsibilities Relating to Other Information*

we plan to make available as soon as possible - see details at the end of this publication on where to access this guidance. The *Forming the Opinion and Reporting Checklist* in APT Next Gen also provides guidance on these reporting matters.

Scope limitations

- If the audited entity (including its components in a group audit situation) is unable to provide relevant books, records, analyses or other documentation needed for the engagement due to restrictions imposed because of the coronavirus outbreak, the auditor may be unable to obtain sufficient appropriate audit evidence to form an opinion
- Also, if the engagement team is unable to obtain necessary evidence from experts, from third parties (confirmations, legal letters, etc.), or through alternate procedures, they again may be facing a scope limitation situation
- In addition, due to restrictions on engagement teams who are unable to go to the audited entity's premises or get relevant evidence remotely, situations may arise where the engagement team simply cannot obtain sufficient appropriate audit evidence
- Similarly, if a group auditor is unable to adequately review or otherwise obtain desired evidence from component auditors, particularly in cross-border situations, a scope limitation may exist
- Depending on the pervasiveness of the scope limitation, the engagement team issues either a qualified opinion or a disclaimer of opinion.

Non-compliance with the financial reporting framework

- If there is inadequate disclosure of subsequent events relating to the coronavirus outbreak, the auditor shall express a qualified or adverse opinion depending on the pervasiveness of the inadequate disclosure
- If there are other material misstatements related to the measurement, presentation or disclosure of other financial statement areas (for example, impairment of financial and non-financial assets, completeness of provisions, adequacy of disclosures, etc.), the auditor shall express a qualified or adverse opinion, depending on the pervasiveness of the misstatements.

Emphasis of matter

- If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, an EOM paragraph is included in the audit report. Possible significant impacts of the coronavirus outbreak that may merit EOM paragraphs include:
 - When the auditor concludes that no material uncertainty exists related to going concern
 - When the coronavirus outbreak is only reflected in the financial statements through the subsequent event note as the conditions did not exist at year end
 - When significant adjustments have been made to FSAs as a result of the coronavirus.
- When an EOM is included in the audit report, it clearly references the financial statement note which fully describes the matter being emphasized. The EOM also indicates that the auditor's opinion is not modified in respect of the matter emphasized.

Key audit matters

Possible significant impacts of the coronavirus outbreak that are likely to be considered KAMs include:

- Determining whether the coronavirus pandemic was a condition in existence at the year-end date versus being a non-adjusting subsequent event
- Concluding that no material uncertainty exists related to going concern
- Determining the impact of the coronavirus outbreak on the valuation of assets and liabilities, including specific accounting decisions to, for example, write down assets, reclassify debt or make other significant adjustments to FSAs
- Determining the nature and extent of subsequent event disclosures.
- Resources to help you write KAMs include:
 - Assurance Approach and Software Tools publications:
 - [How and When to Identify Key Audit Matters](#)
 - [How to Write Key Audit Matters](#)
 - [Key Audit Matters database](#) - containing sample KAMs on various matters (filter column B for 'Going concern', 'Subsequent events', 'COVID-19', or other relevant topics)
 - A Rapid Insights video called [An Introduction to ISA 701](#)
 - BDO Audit Manual Chapter 44 - *Communicating Key Audit Matters in the Independent Auditor's Report*.

Other engagement considerations

Interim financial reporting

[IFRS Practice Alert 2020/03](#) also sets out specific points of note for entities that prepare interim financial statements in accordance with IAS 34. Such entities are required to disclose 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. Accordingly, the effect of the coronavirus outbreak is expected to require significant and comprehensive disclosure. The application of the requirements of applicable IFRSs also requires careful consideration and documentation.

Where the auditor carries out a review engagement on interim financial reporting, there is a requirement to inquire whether management has changed their assessment of the company's ability to continue to adopt the going concern basis of accounting and to address events or conditions that may cast significant doubt on the going concern basis. While it has been uncommon for the engagement team to need to carry out significant work in this regard, in the current unprecedented circumstances the engagement team is likely to need to follow the audit evidence-gathering and reporting considerations outlined above.

Clear and timely documentation

[IFRS Practice Alert 2020/03](#) notes that in respect of financial periods ended 31 December 2019, the effects of the coronavirus were generally a 'non-adjusting event' (IAS 10.10-11), and therefore, forecasts, projections and associated assumptions used in preparing financial statements as at 31 December 2019 would reflect either little or no change as a result of the coronavirus outbreak. Given the pace of spread of the virus and actions taken in response, for reporting periods beginning on or after 31 January 2020, the effects of the coronavirus would be incorporated into the preparation of financial statements.

Further, as time elapses and the effects of the coronavirus outbreak change and evolve, it may become difficult to distinguish which information, facts and circumstances should be incorporated into measurement as at period end and which should result in potential subsequent event disclosure.

Accordingly, auditors should pay particular attention to ensuring and documenting whether the matter being addressed relates to period end or subsequent facts and circumstances. The period end facts and circumstances should be clearly recorded and supported by evidence. Given the rapid development of facts and circumstances, auditors will need to regularly reassess and document the continued validity, or otherwise, of judgments based on post period facts and circumstances, including up to the date of signing the audit opinion.

We strongly encourage the inclusion of a Highlights Memo in APT files to document and show the development of the impact of the coronavirus on the audit strategy and performance. Prompt file housekeeping and archiving is also strongly encouraged to ensure clarity.

Professional ethics and independence requirements

Relevant ethical and independence requirements continue to apply. The scope of services we are able to provide remains unchanged. We should be alert to increased threats to objectivity when responding to requests for support and advice.

New page on BDO World for all A&A guidance related to coronavirus / COVID-19

To make it easier for engagement teams to find accounting and auditing guidance that Global has issued related to the coronavirus, we have set up a new page on BDO World for [A&A Implications of COVID-19](#). This page will contain the following:

- Publications and communications (internal auditing communications, internal accounting communications and external/client publications)
- Sample audit report paragraphs (modified opinions, EOMs)
- Sample Key Audit Matters
- Frequently Asked Questions (FAQs) and possible responses, covering topics such as the use of e-signatures, the audit of inventory, component audit evidence, accounting for government financial support and the practicalities of engagement team supervision and review.
- Links to other BDO resources
- Links to resources from regulators, standard setters, professional bodies etc.

We plan to update this page as new guidance becomes available, so please check this site on a regular basis for the most up-to-date guidance. Please also bring helpful resources to our attention.

CONTACT

You should follow your usual consultation and escalation processes in respect of engagement-specific and firm-specific matters. In these unprecedented times, Global Office colleagues stand ready to provide input where it would be helpful to addressing risks to audit quality. Please email audit@bdo.global with a brief summary of the issue and we will do our best to respond.