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Audit Planning

❖ Engagement with Client:

▪ Proactive discussions with the client on the impact of the coronavirus on the company, its business, operations, reporting timetable and the related audit timetable, including contingency plans.

▪ Logistical issues in preparing accounts and undertaking audits will require auditors to develop alternative audit procedures to gather sufficient appropriate audit evidence.

❖ Other considerations:

▪ Implications of additional risks identified on understanding of entity and its environment.

▪ Discuss with management about incorporation of COVID impact into their risk assessment processes.

▪ How the management have identified and assessed the significance of the business risks.

▪ Exercise professional scepticism when evaluating the assessment of the management about the impact on risks assessment and financial reporting.

▪ In case of agreement with management assessment, perform audit procedures to obtain sufficient appropriate evidence.

▪ In case of disagreement, assess the impact on audit risk assessment, scope and amendment of the audit approach.

▪ Threat of new significant risks identified, for instance the company’s liquidity.

▪ Reconsidering the risk assessment during the audit due to uncertainty of the current situation.
Potential Impacts:

- **Changes in Inherent risk assessment** (e.g., Increased complexity, subjectivity and uncertainty may result in a previously non-significant risk being assessed as a significant risk)
- **The identification of new risks of material misstatements** (e.g., Non significant account to significant account).
- **Changes in our risks of material misstatements assessment** because of changes in Inherent risk and control risks.

**Internal Control Environment (SA 315):**

- Proactive engagement with management to understand the nature & extent of impact on Internal Control environment.
- The impact of changes to the auditor’s understanding of the entity’s system of internal control, including:
  - The Internal control environment
  - Changes to the planned reliance on controls in determining responses to identified risks of material misstatement
Potential challenges in the risk assessment of Internal Control environment:

- Delays in operation of year end controls.
- Certain monitoring control may be rendered ineffective.
- Operative effectiveness of controls on account of absence of concerned person.
- Changes in financial reporting process.
- New controls or redesign of controls.
- Design and implementation of controls related to selection and application of GAAP for accounting and disclosure issues due to issues arising from COVID-19.

Evaluation of additional risks:

- Operational disruption resulting in any changes to the business model.
- Contractual non-compliance resulting in contractual breaches.
- Valuation of stressed assets.
- Liquidity and working capital issues given the reduced/impaired ability to service debt or replenish working capital requirements due to possible lower cash flows.
- Downward asset valuations may trigger legal and compliance issues or lead to liquidity challenge.
Risk Assessment – Fraud Risk Assessment

Considerations:

- Rise in risk of likelihood of fraud to a higher level in the financial statements due to potential financial statement effects resulting in increased pressures/incentives on management to meet performance targets or market expectations.
- Significant estimates will be used by management in the financial statements.
- Reduced effectiveness of Internal Controls due to remote working arrangements.
- Lower monitoring of controls.
- Increased risk of cyber fraud.
- Exercising a higher level of skepticism in the assessment of new fraud risks.
- Increased risk of management overrides of accounting entries in the financial statement closing process.
Materiality

Materiality in Planning and Performing an Audit:

- The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

- If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.
Audit Procedures

- Extended audit procedures to eliminate the possibility of fraud or material error in the financial statements.
- Modifications of planned audit procedures to obtain sufficient and appropriate audit evidence.
- Identify new financial statement level or assertion levels risks due to fraud.
- Perform additional procedures to respond to increased risks.
- Involve forensic specialist if required in specific circumstances.

External confirmations:
- Effectiveness need to be checked due to inadequate responses or non-responses.
- Reliability of Responses to Confirmation Requests:
  - **Not reliable** - Evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures
  - **Non responses** - Perform alternative audit procedures.
    - Accounts receivable balances – Examining specific subsequent cash receipts, shipping documents, and sales near the period-end.
    - Accounts payable balances – Examining subsequent cash disbursements or GRNs.
Audit Evidence

Considerations:
- Revision of approach of obtaining sufficient appropriate evidence in light of new information.
- Should anticipate the greater use of technology in sharing data or hosting virtual meetings.

Validation of information obtained in electronic form that has been extracted with the original sources:
- Agreeing electronic information (Excel, PDF) to source documents (Trial Balance, Minutes) to ascertain the validity.
- Obtain read only access of ERP to extract information independently.
- Using screen sharing facilities to observe client personnel generating the content and sending to us.
- Using external confirmations.

Procedures to ascertaining the reliability of information in electronic form:
- Understanding management’s process for preparing the information.
- Obtain understanding of controls that management has implemented over preparation and maintenance of data.
- When management has access to original hard copies, consider holding interactive information review sessions with key client contacts via screen sharing technology in which inspection of original documents may be performed.
Going Concern

- **Indicators for Going Concern assessment** - Fall in profitability to fund interest and repayment commitments, breach of debt covenants, failed refinancing, significant decrease in sales or production of goods, etc.

- **Considerations:**
  - Evaluate and conclude on the appropriateness of management’s going concern basis of accounting.
  - Evaluate whether there is adequate support for the assumptions underlying management's assessment and the consistency of these assumptions across the entity's business activities.
  - Assess whether there is a material uncertainty exists about the entity’s ability to continue as a going concern. Obtain S&A evidence.
  - Check whether detailed forecasts are regularly updated in the going concern assessment:
    - Till the financial statements are authorised for issue.
    - Should capture current scenarios and management's plans.
  - Assessment of threat to liquidity and measures taken to support operations.
  - Application of professional scepticism during going concern assessment.
  - Issue of a modified audit report in case of disagreement with the management assessment of going concern and preparation of financial statements and disclosures related to going concern.
Accounting Estimates

Considerations:
- Changes to regulatory factors that may affect accounting estimates (e.g., initiatives aimed at sustainable solutions for temporarily distressed debtors in the context of the outbreak).
- Whether data being used by the entity is relevant and reliable.
- The effect of changing inherent risk factors, in particular uncertainty.
- Adequacy of disclosures related to estimates and assumptions.
- Reasonableness of accounting estimates.

Special attention to significant accounting estimates and assumptions used by the management in the following cases:
- Impairment of Financial and Non Financial Assets
- Allowance for Expected Credit Losses
- Provisions for onerous contract
- Employee termination benefits
- Contractual penalties
- Valuation of defined benefit plans and obligations.
Group Audits

Considerations:

- Considerations towards risk assessment, materiality and ability to obtain sufficient and appropriate audit evidence for Associates, Subsidiaries and Joint Ventures.
- Thorough understanding of the impacts, identifying significant components and adequately planning to review component auditors’ work to meet the standards’ requirements.
- Increased involvement of the principal auditor in the form of:
  - Re-assessment of significant risk at group level and significant components identified.
  - More frequent and in-depth discussions with component auditors.
  - More extensive review of component auditors significant findings, observations including responses to questionnaire.
- Consider making changes to planned audit procedures due to restrictions such as:
  - Review of data through cross border sharing.
  - Completion of a detailed questionnaire by component auditor.
  - Considering the outcome of any prior visits including visits during planning and interim stage.
  - Work that can be done centrally by the Principal auditor’s team.
- Impact on audit opinion to be considered in cases limitation of scope of audit or non-availability of adequate information or reporting from component auditors.
Assessment of Financial Impact Part 1

Valuation of Inventory
- Impact on NRV and whether the inventories have written down to NRV.
- Evaluation of NRV assessment by management.
- Assessment of impairment of high risk inventory. For e.g., Seasonal, Short life, Obsolete inventory.
- Recognition of Unallocated fixed overhead costs in profit or loss.

Physical Count
- Perform audit procedures to obtain audit evidence about whether changes in inventory between the -count date and the date of the financial statements are properly recorded.
- Review the effectiveness of the design, implementation and maintenance of controls over changes in inventory determines whether the conduct of physical inventory counting at date other than the date of the financial statements is appropriate for audit purposes.
- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records.
- If attendance at physical inventory count is impracticable:
  - Perform alternate procedures to obtain evidence regarding the existence and condition of inventory.
  - If it is not possible to do so, the auditor shall modify the opinion in the auditor’s report.
Impairment of Non-Financial Assets
- Whether impairment testing has been carried out due to significant external indicators.
- Whether updated cash flows and discount rate used to reflect the impact of COVID-19.
  - Taking into account relevant risk factors and multiple probable outcomes.
  - Challenges in estimating cash flows given the degree of uncertainty.

Impairment of Financial Assets
- Evaluate provisions for Expected credit loss.
- Assessment of estimates used by management to ascertain the impact on receivables collection.
- Basis of their assumptions and estimates.
- Has management considered portfolio segmentation and what is the basis for the segmentation.

Rent Concessions
Accounting of rent concessions as lease modifications or variable lease payments.
Assessment of Financial Impact Part 3

Restructuring
- Considering sale/closure/downsizing of operations, whether restructuring provision recognised.
- If recognised, whether at balance sheet date there is a formal plan for restructuring and it has raised a valid expectation in those affected that it will carry out the plan.

Breach of Covenants
- Increase in Risk of breach of financial covenants.
- Assess consequential impact on:
  - Timing of repayment of borrowings
  - Current and Non-current classification of borrowings.

Onerous Contracts
- Recognition of provision.
- Provision for penalties due to non-fulfillment of contractual obligations.
- Review termination clauses in key contracts to determine whether the cost of exiting the contract is lower than the cost of fulfilling it.
- Consider if COVID-19 falls under force majeure clause.
Assessment of Financial Impact Part 4

Fair Value measurements

❖ Assess whether the valuations:
  ▪ Reflect market participants assumptions based on information available and market conditions at measurement date.
  ▪ Incorporates the risk premiums that would arise from increased uncertainty.
❖ Consider whether unobservable inputs have become significant which would result in a level 3 categorization and require additional disclosures.
❖ Review of expanding disclosures about the key assumptions, sensitivities and major sources of estimation uncertainty.

Other Key Matters

❖ Disclosure of risks and uncertainties and effects, if any on the management judgements.
❖ Recognition of insurance claims filed due to business disruptions.
❖ Review of estimates for share based payment arrangements, accounting for modifications or settlements.
❖ Recoverability of deferred tax assets.
❖ Implication of decline in fair value of plan assets.
Events after reporting period

Considerations:

- Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
- Discussing with the management as to whether any subsequent events have occurred which might affect the financial statements.
- Review all available information up to the date of the audit report when concluding on the appropriateness of the client’s going concern assessment.
- Examine the impact of subsequent events as adjusting event or non-adjusting event and whether specific adjustments and disclosures have been made.
- Reading minutes of the meetings that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- Reading the entity’s latest subsequent interim financial statements, if any.
- Cases where specific requirements provided in SA 560 must be performed by auditor to ensure the auditor’s report remains appropriate including dual dating, seeking legal advice:
  - Facts Which Become Known to the Auditor After the Date of the Auditor’s Report but Before the Date the Financial Statements are Issued.
  - Facts Which Become Known to the Auditor After the Financial Statements have been Issued
Responsibilities related to Other information

- **Other information includes:**
  - Amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements,
  - Other amounts or other items about which the auditor has obtained knowledge in the audit

- In case there is other information that indicates that there is a material misstatement in the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.

- Assessment of inconsistencies between the information provided by the entity in its annual report and in the financial statements & auditor's knowledge obtained in the audit about the impact of developments arising from COVID-19.
Considerations:

- Assessment of adequacy and appropriateness of management’s disclosures about company’s prospects and how financial statements users might be affected.
- Adequacy of disclosures related to risks arising due to COVID-19.
- Completeness of specific disclosures required under Ind AS on adjustments made in the financial statements.
- Assessment of disclosures in Management discussion and analysis (MD&A) in the company’s annual report regarding material (current and potential) future impact on their risk assessment, operations, financial condition and liquidity.
- Adequacy of disclosures of key assumptions in case of no financial impact considered in the current reporting period by management.
Emphasis of Matter and Key Audit Matter

- **Emphasis of Matter** - Highlighting the significant uncertainty surrounding accounting estimates and other financial impact due to COVID-19 so that the users’ get clear understanding of the financial statements.

- **Key Audit Matter:**
  - Matters that require auditor’s significant attention and professional judgement in the audit of financial statements due to the impact of COVID-19.
  - Selected from the matters communicated with those charged with governance.

  Evaluate whether the impact of the disruption caused because of COVID-19 to the operations of the entity, consequential impact on the financial statements would be a key audit matter and if determined so, the auditor would need to report the same along with how the matter was addressed in the audit.

- **Considerations:**
  - Areas of higher assessed risk of material misstatement, or significant risks identified.
  - Significant management judgments and accounting estimates that have been identified as having high estimation uncertainty.
  - The effect on the audit of significant events or transactions that occurred during the period.
Situations where the Auditor may need to express a modified opinion:

- Inadequacy of disclosures, or going concern uncertainties, in the financial statements.
- Issue of a disclaimer of opinion due to scope limitation when unable to obtain sufficient appropriate audit evidence.
- The financial impact are not accounted or reported or disclosed as per the prescribed Accounting Standards.
- Unable to obtain sufficient appropriate audit evidence relating to material component audited by the other auditor.
- If the auditor is of opinion that there are material misstatements in the financial statements due to inability to obtain sufficient appropriate audit evidence.
- Refusal by the management to correct misstatements identified and communicated during the audit, that are individually or in aggregate, material to the financial statements.
Other Considerations

Evaluation of work of Management’s expert
Management’s may use an expert for assessments of risks, assumptions and preparations of estimates due to significant impact on business operations.

Considerations:
- Evaluate the competence, capabilities and objectivity of that expert.
- Obtain an understanding of the work of that expert.
- Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Written representations
- Written representations from management should be exhaustive, containing the occurrence, method of measurement, completeness of transactions recorded and the disclosure of financial impacts in the financial statements.
- Assess whether any specific representations may be required to be obtained from the Management in relation to Managements' assessment of impact from COVID-19.