

EVALUATION

RESULT

FINANCE

QUALITY

PROCEDURE

OPERATIONS

IMPACT OF CORONAVIRUS

ICAI GUIDELINES FOR AUDITORS OF FINANCIAL STATEMENTS

Background

The Institute of Chartered Accountants of India (ICAI) has come out with its guidelines for care to be taken by the PREPARER and the AUDITOR of the financial statements for easing out the impact of COVID 19. In the last week, the Government had deferred the applicability of CARO 2020 by one year and SEBI has also extended the time-line to publish financial results for quarter and year ending 31st March 2020. These proactive measures are appreciated in this difficult time. This document focuses on audit procedures to be followed by the AUDITORS in the current scenario based on the principles of Standards on Auditing (SA's). For the guidelines pertaining to the preparer of the financial statements, refer our separate bulletin.

Impact of corona virus on audit of financial statements

- **Revision in risk assessment and materiality**

Evaluation of additional risks on account of operational disruption, contractual non-compliance, liquidity & working capital issues, possibility of fraud, etc. will require revision in risk assessment and in calculation of materiality.

- **Year-end physical verification**

Considering the lock-down, it will not be possible for the entities to conduct physical verification of inventory and cash balances as on the cutoff date of 31st March 2020. The auditor shall perform alternate audit procedures to ensure the appropriateness of the stock levels / cash balances as on the reporting date.

- **External confirmations**

Auditor shall perform alternate audit procedures if inadequate / no responses are received from external parties for balance confirmation.

- **Assessment of significant accounting estimates and assumptions**

Considering the fact that lot of estimation and assumptions will be involved for factors such as impairment of assets, provision for onerous contract, contractual penalties, etc., auditor shall be skeptical in assessment of such estimates and assumptions made by management or its expert. The auditor shall obtain written representation from the management.

- **Assessment of Going concern**

In the current pandemic of prolonged operational disruption, the financial position of the entities would have been unfavorable. Auditors' should evaluate its impact on the going concern of the entity and discuss this with those charged with governance.

- **Group audit**

In case of audit of consolidated financial statements where the component(s) auditors are located in severely affected places, the principal auditor may perform alternative methods like video conferencing, filing detailed questionnaire, etc. for conducting the audit. It shall consider the impact of COVID 19 on the financial statement of its components.

- **Other reporting requirements in the audit report**

- The auditor shall evaluate that whether the impact of disruption could be a Key Audit Matter (KAM).
- In regards to its responsibilities relating to other information, the auditor shall consider the disclosures made by the Company for COVID-19 risks in its financials / annual report.
- In case of reporting under Internal Financial Controls (IFC), additional considerations might be required to be considered before drawing an opinion.

In our view,

- *auditors should prepare a separate set of questionnaire for management to identify such risks involved in each of the critical*

areas and measures taken to mitigate such risks and revisit the level of materiality.

- *auditors will have to assess the risk involved in each client based on the size, volume and classification of inventory at year end. Auditors should formally communicate to the management about the alternate steps which would be taken during the course of audit and auditor's representative will not be present during the year end physical count.*
- *auditor shall examine subsequent receipts / payments, underlying documents for transactions during lock-down period. Confirmations from related parties should be insisted.*
- *additional precaution should be taken by the auditors and emphasis may be added in the audit report.*
- *audit steps should include assessment of risk and ability of the management to fulfill its obligations / current liabilities in next 12 months.*
- *early warning should be given by the component auditor to principal auditor for matter like deadlines which cannot be fulfilled, any material adjustments, etc.*

Guideline for preparers

The management will take all precautionary steps for their 'business continuity' and assess the impact and risk of COVID-19 on financial position of the entity which will involve significant assumptions and estimates. Keeping stakeholder's interest into consideration, the preparer should ensure that its impact is properly reflected in the financial statements and board / annual report.

Conclusion

The role of auditors at times like this is under increased scrutiny as the auditors have a public interest obligation to complete the audit work in accordance with professional standards and ethics requirements. Under the current circumstances, auditors must recognise that the manner in which they conducted the audits in the past may need significant modification to address the challenges and uncertainties arising out of the impact of COVID-19. Auditors should exercise a very high degree of skepticism and be prepared to call out where the Company's

narrative that the Board presents is not specific enough and does not “tell the whole story” of the various scenarios and level of uncertainty specific to the Company’s operations.

Irrespective of the challenges and uncertainties, there should not be any dilution or non-compliance with the auditing standards in carrying out the audits. Despite of performing alternate audit procedures as specified in the SA’s or guidelines, if the auditor is unable to obtain sufficient and appropriate audit evidence, they may modify the audit report.

