



**ACCOUNTANCY  
EUROPE.**

# **CORONAVIRUS' IMPACT ON ONGOING AUDITS**

Analysis of guidance for European auditors

**Factsheet**

**FACTS.**

**AUDIT & ASSURANCE  
JUNE 2020**

## HIGHLIGHTS

This publication follows up on [\*Coronavirus' impact on auditing for 2019 year-ends and beyond\*](#) (April 2020). It sets out how the corona crisis impacts businesses and aims to support European auditors in adapting their work on ongoing audits including interim reviews. To this end, we have analysed corona crisis related auditing guidance, issued by global institutions, national regulators and professional institutes. We highlight the main matters for auditors in four categories:

- auditor's identification and assessment of risks
- auditor's response to assessed risks
- auditor's report and communication
- auditor's involvement related to government support

We also keep collecting new guidance on our webpage [\*Coronavirus resources for European accountants\*](#).

## INTRODUCTION

In our April 2020 publication [Coronavirus<sup>1</sup> impact on auditing for 2019 year-ends and beyond](#), we highlighted main matters for auditors to consider in the context of the coronavirus crisis. Most of these matters apply both to audits with 2019 year-ends and to those with 2020 closing dates.

As a follow up, in this publication<sup>1</sup>, we concentrate on matters relevant to auditing related specifically to 2020 closing dates. These matters are also pertinent for the review of interim financial information when performed by the auditor of the financial statements.

This publication is based on analysing existing guidance on coronavirus crisis' implications on auditing, as issued by global institutions, national regulators and professional institutes. This newly available guidance supplements [the International Standards on Auditing \(ISAs\)](#), or other standards and rules applicable in relevant jurisdictions, that continue to apply fully as usual. As pointed out by many regulators, professional requirements and the expected level of audit quality have not changed.

When applying the ISAs in the current circumstances, auditors should consider the nature and the timing of the changes brought by the coronavirus. The changes in the audited entity's way of operating and financial reporting may stem from internal factors, (e.g. restructuring, remote working arrangements) or external factors (e.g. travel restrictions, extended reporting deadlines). These two cases will have different implications for the audit engagement. Auditors also need to make a distinction between the deviations or delays caused by the entity's actions or inactions and the ones caused by the audit firm's reactions, policies or procedures.

We highlight the following main matters for European auditors to consider in ongoing audits:

- auditor's identification and assessment of risks
- auditor's response to assessed risks
- auditor's report and communication
- auditor's involvement related to government support

Our publication [Coronavirus crisis: country responses to the implications on reporting \(April 2020\)](#), provides a summary of guidance available for preparers in areas which need specific attention such as impairment of assets, subsequent events and going concern. This may also be useful for auditors in their considerations.

The current factsheet does not aim to provide a complete list of matters and available guidance that auditors need to consider in the context of coronavirus pandemic. Instead, references to various guidance papers are included as examples.

## MAIN MATTERS FOR THE AUDITOR'S CONSIDERATION

### AUDITOR'S IDENTIFICATION AND ASSESSMENT OF RISKS

The spread of the coronavirus has had a significant impact on the operating environment of entities, including their control environment. As a result, auditors should obtain an understanding of changes therein and their implications for the auditor's risk assessment. This is an iterative process and auditors need to reassess key aspects of their audit continually until signing their report. This may also include having contingency plans to be implemented in cases of future restrictions and other measures that pose difficulty in performing certain audit procedures.

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<sup>1</sup> The information in this publication has been provided by Accountancy Europe's Audit and Assurance Policy Group and by our Member Bodies through our webpage [Coronavirus resources for European accountants](#). Guidance issued up until 15 June 2020 was considered when developing this publication.

## **UNDERSTANDING THE ENTITY'S INTERNAL CONTROL**

[The International Auditing and Assurance Standards Board \(IAASB\)](#) states that the auditor should consider the impact of the coronavirus crisis on the entity's system of internal control, including the control environment. This will assist the auditor in designing and performing further audit procedures, including any plans to rely on and test the operating effectiveness of controls.

## **RISKS RELATED TO VALUATIONS**

[The Association of Chartered Certified Accountants \(ACCA\)](#) believes that the pandemic is likely to be a 'triggering' event, requiring more frequent impairment testing and greater scepticism. Given the heightened degree of uncertainty about future business performance and economic conditions affecting assumptions, valuations will be more difficult to determine. As such, ACCA expects more auditors to recognise an increased risk in the valuation of assets and liabilities.

## **RISKS OF MISSTATEMENT DUE TO FRAUD**

[The Belgian Institute of Registered Auditors \(IBR/IRE\)](#) draws the attention of auditors to the fraud risk factors and notes that the exceptional circumstances, putting the procedures and measures (e.g. internal control) under pressure, provide an opportunity to commit fraud. For example, reduction of employees may result in cases where some control measures are not working optimally, the segregation of duties is broken, or certain authorisation procedures are waived.

[The Institute of Statutory Auditors in Portugal \(OROC\)](#) also highlights increased fraud risks related to government support, amplified importance of cyber security and the potential pressure on entities to report embellished financial performance to meet the requirements of financing agreements or capital raising. Therefore, auditors must remain alert to fraud risk factors and maintain a level of professional scepticism appropriate to the circumstances. The guidance also provides examples of audit procedures that can be performed when an auditor faces unusual situations during the course of the audit such as unexplained delays, difficulties in access to people or information and unexpected changes in accounting policies.

## **RISKS RELATED TO GROUP AUDITS**

[The Institute of Chartered Accountants of Spain \(ICJCE\)](#) provides a list of matters that should be evaluated by group auditors for their risk assessment. Accordingly, the auditor needs to identify the components affected by the coronavirus and then determine which of them are significant. The auditor should also obtain an understanding of the nature of the impact and the measures adopted by the group's management in order to ensure the continuity of the group financial reporting process.

## **MATERIALITY**

In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for determining the nature, timing and extent of risk assessment procedures. They are also relevant when identifying and assessing the risks of material misstatement.

[The Luxembourgish IRE](#) refers to the starting point in determining materiality for the financial statements as a whole. A percentage is often applied to a chosen benchmark such as profit before tax, total revenue, gross profit, total expenses, total equity or net asset value. The coronavirus' implications may give rise to an exceptional decrease or increase in such items. Therefore, the benchmark used and the manner in which the benchmark was measured in prior years may no longer be appropriate.

## **AUDITOR'S RESPONSE TO ASSESSED RISKS**

The evolving environment require auditors to consider if the design and implementation of their usual responses to the identified risks are still relevant. In many cases, they have to perform alternative procedures to obtain sufficient and appropriate audit evidence. It is crucial to document under which circumstances these procedures have been performed.

## REMOTE AUDIT PROCEDURES

Due to restricted travel, meetings and access to company sites, auditors may need to change their audit approach and develop alternative procedures, including remote ones.

[The Institute of Chartered Accountants in England and Wales \(ICAEW\)](#) notes that new technology, such as drones or remotely controlled robotics, might help with inventory testing. However, auditors should consider legal restrictions on the use of such technology and its limitations.

[The Institute of Public Auditors in Germany \(IDW\)](#) guidance provides examples of audit procedures that can be carried out remotely. These include video conferences, tours with image transmission via mobile devices, inspection of scanned or photographed documents and screenshots, use of the postal service and remote access for exchanging documents. The auditor shall assess whether sufficient and appropriate audit evidence can be obtained by using any of these procedures. These can be supplemented by short visits, as necessary, complying with social distance rules.

## INVENTORY

The Institute of Chartered Accountants of Scotland (ICAS) issued [guidance](#) for auditors on attendance at stocktakes during the coronavirus outbreak. The guidance sets out alternative procedures that may be considered. These include using the work of internal auditors, virtual attendance to stocktake, arranging conference calls to converse with key people in inventory management and cut-off tests combined with analytical procedures.

## GOING CONCERN ASSESSMENT

The uncertainty about the global economy and the outlook and survival for many companies has significantly increased. Even though many European governments have responded by pledging financial support for businesses through loan programmes and salary grants, the auditor's assessment of going concern continues to be a key focus of many audits.

The [guidance](#) issued by the IAASB includes examples of events and conditions that may exist as a result of the coronavirus and that may cast doubt on an entity's ability to continue as a going concern. Potential matters to consider in the auditor's evaluation of management's assessment of going concern are also provided for each event or condition.

As [the ICAEW](#) noted, accounting standards set a high threshold for departing from the going concern basis. For this reason, most accounts are, and are likely to continue to be, prepared on a going concern basis despite the pandemic. Nevertheless, auditors are likely to view going concern as a heightened and/or significant risk area. This is due to the increased likelihood of material uncertainties and the possibility that some accounts may be prepared on a basis other than going concern. Auditors will need to ensure they obtain sufficient and appropriate audit evidence when testing management's assumptions and forecasts related to going concern.

The ICAEW guidance adds that auditors will need to remain professionally sceptical throughout the audit and consider the potential additional challenges the business faces due to the coronavirus outbreak. While undertaking their work, auditors may find it useful to consider the questions set out in the above guidance which focus on the future of businesses and their solvency over the longer term.

## SUBSEQUENT EVENTS

In complying with the applicable financial reporting framework and considering the date of the financial statements, management exercises judgment in determining the impact of any subsequent event related to the coronavirus pandemic on the financial statements.

As pointed out in our [previous publication](#), the coronavirus outbreak is considered to be a subsequent non-adjusting event for audits related to 31 December 2019 year-end.

The IAASB [guidance](#) emphasises the fact that due to the current evolving environment, different considerations would apply if the date of the financial statements would be, for example, 31 March 2020 or 30 June 2020. As the corona crisis' impacts continue to evolve, it will require careful assessment to capture events that relate specifically to conditions that existed before or exist at the date of the financial statements, or after the reporting date. This includes distinguishing between adjusting and non-adjusting events related to the pandemic. The guidance further includes examples of events and conditions which may help auditors determine whether subsequent events have occurred and, if applicable, have been appropriately reflected in the financial statements.

It is important to consider that the auditor's responsibilities related to subsequent events differ based on the period in which they occur. ISA 560 distinguishes between three periods linked to the auditor's responsibilities:

1. events that occur between the date of the financial statements and the date of the auditor's report: the auditor has an active duty to perform audit procedures to identify such events and investigate them
2. facts which become known to the auditor after the auditor's report but before the financial statements are issued and
3. facts which become known to the auditor after the financial statements have been issued: the auditor no longer has an active search obligation. However, if the auditor becomes aware of a fact which, if the auditor had known on the date of the auditor's report, may have caused the auditor to amend the report, the auditor has to perform audit procedures listed in ISA 560.

## AUDITOR'S REPORT

Overall, there is no change in the requirements where the auditor's opinion shall be modified based on facts and circumstances, neither for interim reviews nor year-end audits. These are summarised in both [the IAASB](#) and [the UK Financial Reporting Council \(FRC\)](#) publications. Other guidance papers provide additional direction on the auditor's reporting implications of various matters described throughout this paper. They also emphasise the importance of effective communication, both internally and externally. Where evolving circumstances have had a significant impact on the delivery of the audit, auditors will need to consider how to explain this in their report.

### REVIEW OF INTERIM FINANCIAL INFORMATION

[The IAASB](#) notes that the reporting implications on reviews of interim financial information in accordance with International Standard on Review Engagements (ISRE) 2410 will be different since an auditor obtains only limited assurance in these engagements. Depending on the facts and circumstances of each entity, the IAASB believes, a limitation on scope may be more readily expected in the current environment. The IAASB is working on new guidance for the implications of the evolving environment on reviews of interim financial reporting.

The European Securities and Markets Authority (ESMA) issued a [public statement](#) on the implications of the coronavirus outbreak on the half-yearly financial reports. ESMA calls on issuers' management, administrative and supervisory bodies, including audit committees, and, where applicable, their auditors, to consider their recommendations when preparing the interim financial reports. ESMA aims to ensure that they provide comparable, relevant and reliable information and an adequate level of disclosure and transparency to market participants.

[The UK FRC](#) notes that it is a matter for a company to decide whether to engage their auditors to perform an interim review engagement. However, feedback the FRC has received from investors indicates that such a review provides valuable assurance, and this may be particularly so in the current environment.

### AUDITOR'S REPORT

[The IAASB](#) highlights that users expect more transparency through entities disclosing the coronavirus' material effects on them. Under the ISAs, the auditor's responsibility to obtain sufficient and appropriate evidence applies equally to disclosures in the financial statements. Consequently, auditors are required to consider the possible effect on their report if disclosures do not adequately describe the material effects.

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

[The Committee of European Auditing Oversight Bodies \(CEAOB\)](#) reminds auditors of the importance of timely and appropriate communication with the entity's management and those charged with governance during these challenging times.

National professional institutes, such as [the Belgian IBR/IRE](#), also highlight communication as an essential part of the audit. The IBR/IRE guidance points out that if the communication with those charged with governance has only been in written due to the circumstances, the auditor must include these discussions in the audit documentation. Written follow-up of the points discussed orally is appropriate.

[The National Board of Professional Chartered Accountants in Italy \(CNDCEC\)](#) invites auditors to improve the exchange of information with the management body in charge of preparing the entity's financial statements and to promote an effective and timely communication within audit teams.

## AUDITOR'S INVOLVEMENT RELATED TO GOVERNMENT SUPPORT

As noted above, governments have responded promptly to support companies by introducing a wide range of measures such as deferral of tax payments, loan guarantees, direct loans or grants, and wage subsidies. Along with these measures, additional regulatory and reporting requirements have also been established to ensure that taxpayers' money is not misused.

Especially small- and medium-sized entities may expect auditor's assistance in their efforts to raise funds from financial markets or to apply to government programs for corona-related financial support. [The International Ethics Standards Board for Accountants \(IESBA\)](#) reminds auditors that such assistance should not involve assuming a management responsibility. Auditors shall be satisfied that the entity's management makes all judgements and decisions that are their proper responsibility

In the Netherlands, entities need to obtain an accountant's or auditor's opinion if the total government subsidy for employee salaries received by the entity is more than Euro 125.000. [The Royal Netherlands Institute of Chartered Accountants \(NBA\)](#) has established a helpdesk as well as FAQ section on their website to clarify practical issues for accountants and auditors.

In France, the auditor's responsibility has been extended by a [regulation](#). Accordingly, auditors have to assess an entity's financial situation and may initiate a safeguarding process with the Tribunal de Commerce as necessary. For example, when it appears to the auditor that the emergency requires immediate action and management does not proposes (sufficient) measures. [The Institute of Statutory Auditors in France \(CNCC\)](#) explains what needs to be considered by auditors along with new documentation and reporting requirements brought by this extension.

In Austria, certain support programs require an auditor's or accountant's assurance. This assurance covers whether the entity meets some, or all, of the support program's eligibility criteria and if underlying calculations are made as the support program requires. The Austrian Chamber of Tax Advisors and Public Accountants ([KSW](#)), with support from the Austrian Institute of Auditors ([IWP](#)), is working on guidance which will include templates for the reports (expert opinions) and representation letters.

In Denmark, public authorities implemented a large number of government grants to help companies and save jobs. Auditor's statement is required for the majority of these grants; either when an entity applies for the grant or reports its 2020 financial statements. Furthermore, the authorities have the option to use an independent auditor when they perform subsequent audits of the grants. [The Danish Institute of Auditors \(FSR\)](#) issued comprehensive guidance for the audit work related to these statements, including audit tools, for its members.

[The Luxembourgish Institute of Registered Auditors \(IRE\)](#) briefly explains the main measures taken by the Luxembourgish government and describes the audit work required for each of them. These measures include

extension of tax payment deadlines, capital grant advances, state-backed guarantees and short-time working arrangements.

## **FURTHER RESOURCES**

In addition to the available guidance, auditors and audit firms will need to consider the application of their audit policies, and internal guidance and methodology as appropriate on a case by case basis.

As the situation evolves, new guidance and other relevant material may become available for auditors and professional accountants. Therefore, Accountancy Europe continues updating its webpage [Coronavirus resources for European accountants](#).





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