



**ACCOUNTANCY
EUROPE.**

CORONAVIRUS' IMPACT ON AUDITING FOR 2019 YEAR-ENDS AND BEYOND

Analysis of guidance for European auditors

Factsheet

FACTS.

**AUDIT & ASSURANCE
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HIGHLIGHTS

Measures taken to contain the coronavirus affect us all. This publication focuses on how this impacts businesses and the people that audit them. It aims to support European auditors in adapting their work to new circumstances in ongoing audits with 2019 year-ends and beyond. To this end we have analysed corona crisis related auditing guidance, as issued by global and national regulators and professional institutes. We highlight the following main matters for auditors to consider:

- obtaining audit evidence
- auditor's assessment of going concern
- auditor's reporting

As the situation evolves, we will keep collecting new guidance on our webpage [Coronavirus resources for European accountants](#). Most of the matters in this publication apply also to audits with closing dates after 2019. We will shortly issue an additional overview with main matters for consideration specifically for audits with 2020 closing dates.

INTRODUCTION

The spread of coronavirus across Europe and around the globe in the past months has had significant impact on most business activities, for example due to a halt in production, and trade or travel restrictions. Despite the situation, companies are obliged to meet their reporting deadlines, although these have been extended in some jurisdictions, and auditors then have to audit companies' financial statements. Financial reporting and audit of the financial statements can help provide transparency and trust in these uncertain times.

Companies and auditors need to adapt their work to the changing environment as we noted in our previous publication [Coronavirus crisis: implications on reporting and auditing](#). Moreover, in [Coronavirus crisis: country responses to the implications on reporting](#), we provide a summary of country responses, including national governmental measures, to the implications on company reporting as a result of the coronavirus outbreak. Auditors need to be aware of such changes in companies' reporting.

OBJECTIVE

This publication is based on analysing existing guidance on coronavirus crisis' implications on auditing, as issued by global and national regulators and professional institutes. This newly available guidance supplements the International Standards on Auditing (ISAs) that continue to apply fully as usual. We highlight the following main matters¹ for European auditors to consider in ongoing audits with 2019 year-ends and beyond:

- obtaining audit evidence
 - accounting estimates
 - group audits
- auditor's assessment of going concern
 - management's going concern assessment and going concern statement
 - subsequent events
- auditor's reporting
 - audit opinion
 - Emphasis of Matter paragraph
 - Key Audit Matters (for PIEs)

Note that this factsheet does not aim to provide a complete list of matters and available guidance that auditors need to consider in the context of the coronavirus pandemic. Instead, the references to various guidance papers are included as examples. In their work, if auditors consider guidance included in this publication, they need to refer to its original full-text version.

Across Europe, the countries' responses to the pandemic vary. Auditors therefore need to consider additional legislative and other relevant measures and changes applicable at a national level.

¹ 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 end of April 2020 was considered when developing this publication

MAIN MATTERS FOR THE AUDITOR'S CONSIDERATION

OBTAINING AUDIT EVIDENCE

It is the auditor's responsibility to obtain sufficient and appropriate evidence before issuing the auditor's report. The coronavirus pandemic brought additional challenges for auditors to obtain such audit evidence. There are two areas where the challenge is primarily relevant: accounting estimates and group audits.

[The Committee of European Auditing Oversight Bodies \(CEAOB\)](#) advises auditors to explore the use of technology to the maximum extent possible in order to obtain sufficient and appropriate audit evidence. In this regard, [the Institute of Public Auditors in Germany \(IDW\)](#) lists certain audit procedures that might be performed remotely.

[The Institute of Chartered Accountants of Spain \(ICJCE\)](#) notes that documents with a legally recognized digital signature will most likely be valid as audit evidence. However, different procedures should be applied to digitalised copies of original handwritten documents received by electronic means, since their reliability may be lower.

The [IDW](#) refers to the requirement that any significant problem encountered during the audit, e.g. in obtaining audit evidence, should be explained in the auditor's report. The auditor is obliged to exhaust all reasonable possibilities for clarifying facts. Eventually, a modification of the audit opinion in the auditor's report due to a limitation of scope may be considered.

ACCOUNTING ESTIMATES

[The International Auditing and Assurance Standards Board \(IAASB\)](#) states that the auditor should evaluate whether assumptions made for accounting estimates are still appropriate in the changing circumstances. The IAASB is currently working on another staff alert which will highlight the areas of focus when auditing accounting estimates in an evolving environment due to the impact of the coronavirus.

The [IDW](#) mentions the valuation of financial instruments in accordance with International Financial Reporting Standard (IFRS) 9 as one of the greatest challenges faced by entities. Accordingly, there is a potential for the risk of material misstatement to increase in this area and therefore the audit procedures may need to be adjusted. Depending on the circumstances, the guidance suggests alternative procedures such as using publicly available market prices and performing an independent estimate by involving an expert.

[The Institute of Certified Public Accountants of Cyprus \(ICPAC\)](#) presents further areas which need to be treated with a higher degree of professional scepticism in terms of audit evidence. These include the areas with a higher estimation uncertainty due to the potential inability of audit clients to leverage the competencies of management experts. The extent and content of the management representations and the work of component auditors in a group audit are also included as indicative areas.

GROUP AUDITS

The [IDW's guidance](#) explains that the group auditor may face access issues and so might component auditors, or they could be unable to perform certain planned procedures. There might also be a need to revise the group audit instructions. For example, incapacity on the part of a component auditor could mean that the group auditor needs to perform more alternative procedures centrally to compensate. The group auditor may also face a scope limitation which would impact the auditor's report.

According to [the Chartered Accountants Ireland \(CAI\)](#), component auditors could face significant challenges completing their audits. This could be due to difficulties with obtaining information, access to management and others, difficulties accessing client premises or audit procedures not providing anticipated results, such as bank/debtor confirmations not being received.

The Institute of Chartered Accountants in England and Wales (ICAEW) prepared [guidance](#) dealing with the issues facing group audits. It is designed for UK group auditors with component auditors based in jurisdictions impacted by the coronavirus but it may also be relevant for group auditors in other jurisdictions.

AUDITOR'S ASSESSMENT OF GOING CONCERN

MANAGEMENT'S GOING CONCERN ASSESSMENT AND GOING CONCERN STATEMENT

The auditor's work on going concern will undoubtedly be a main focus of many current and forthcoming audits. This is due to the increased uncertainty about the global economy and immediate outlook for many companies, although governments have started providing relief to those impacted. However, government support measures vary greatly at a European and global level, which impacts companies with subsidiaries, suppliers and customers based in different jurisdictions.

As noted in our [publication](#) on reporting by companies, a number of countries (including Italy, Czech Republic, Spain, Portugal) report that the coronavirus outbreak will result in going concern issues for companies in 2020, due to the massive pausing of business activity. Companies will need to assess if they can continue as a going concern and disclose their judgements in the notes to the financial statements. While ISA 570 on Auditor's Responsibilities Relating to Going Concern remains applicable, there is now a lot of new guidance available for auditors to help them deal with this new situation.

According to the [IAASB](#), auditors need to assess the impact of the coronavirus outbreak, i.e. whether it has materially impacted or is expected to materially impact, on the auditor's evaluation of management's assessment of going concern. Auditors might also need to look into the appropriateness of the use of the going concern basis for the preparation of the financial statements, or a consequential modification to the auditor's report as needed. Importantly, the IAASB has now issued [guidance](#) focusing in detail on going concern considerations for audit.

The [CEAOB](#) urges auditors to pay close attention to the entity's assessment regarding its ability to continue as a going concern. In addition, auditors should consider the impact of their evaluation of management's assessment on the auditor's report and the communication with those charged with governance.

At the same time, many national professional institutes and regulators also emphasise that auditors should pay special attention to the adequacy of managements' going concern assessment and they should assess consequences of the coronavirus' impact for the going concern statement.

The IDW's [guidance](#) provides auditors with examples of coronavirus related risks which could negatively affect a company's ability to continue as a going concern and should therefore be considered during the audit. The IDW's guidance further lists examples of additional audit procedures for cases when the coronavirus pandemic has led to events or circumstances which could cast significant doubt on the company's ability to continue as a going concern.

Importantly, the [IDW](#) also points out that the auditor, when assessing the company's ability to continue its operations, needs to consider its entitlement to receive, and intention to make use of government relief measures, if applicable.

The [ICPAC](#) outlines key considerations to help evaluate management's assessment and the feasibility of their plans for future actions in respect of going concern. The guidance highlights the importance of ensuring that the review of the going concern and viability is updated to the date of signing the auditor's report, includes a period of at least twelve months from the reporting date, and has been challenged sufficiently, and sensitivities considered are severe but plausible to make the assessment. It also points to the need to evaluate the adequacy of the disclosures, including whether information related to the going concern assessment is complete and accurate.

The UK Financial Reporting Council (FRC) has also issued [guidance](#) related to the going concern matter. The FRC expects that due to the current circumstances, the auditor's going concern work will be more extensive, require more evidence, and will continue to be performed through to the point of signing the auditor's report. Therefore, more evidence may be required from the entity and the auditor should set a clear expectation with the audited entity of the additional time that will be needed to complete the audit.

SUBSEQUENT EVENTS

In the context of coronavirus pandemic, a lot of focus of auditors will need to be put on subsequent events disclosures.

As pointed out in our previous [publication](#), the auditor should consider the difficulties that management may have in preparing future projections, recognising the highly uncertain and fluid situation. Indeed, such projections could change significantly in a short space of time. It is essential for the auditor to use professional judgement and scepticism. Auditors need to exercise care to ensure that any projections reflect the situation as, and when, an auditor's report is to be signed.

Auditors need to follow ISA 560 on Auditor's Responsibilities Relating to Subsequent Events and explore newly published guidance on the matter. Below we present some of the main points raised in the available guidance.

According to the [IAASB](#), auditors have to consider the risks arising due to the shifting of reporting deadlines which increases the period and therefore also the related risks for events occurring between the date of the financial statements and the date of the auditor's report. Auditors should focus on identifying any material subsequent events related to the coronavirus and assessing whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework.

The [CEAOB](#) says that auditors need to assess whether the disclosures provided by the entity on the coronavirus impact on its activities, financial situation and future economic performance are appropriate in view of the applicable financial reporting framework. Moreover, the guidance also suggest that auditors may include a related Emphasis of Matter paragraph on this subsequent event in the auditor's report.

Available guidance papers, such as from [the Belgian Institute of Registered Auditors \(IBR/IRE\)](#), [Norwegian Institute of Public Accountants \(DnR\)](#) and [National Board of Professional Chartered Accountants in Italy \(CNDCEC\)](#), consider the coronavirus outbreak as a subsequent non-adjusting event which results only in disclosure notes for 2019 reporting year-ends and their audits. However, this does not apply to going concern assumption as noted in the section above. Importantly, [the Hellenic Accounting and Auditing Standards Oversight Board \(HAASOB\)](#) highlights that events after the completion date of the financial statements may provide additional and significant information about the uncertainties that existed at that date.

AUDITOR'S REPORT

AUDIT OPINION

Overall, there is no change in the circumstances where the audit opinion shall be modified, as per the 700 series of ISAs. The guidance papers provide additional direction on various relevant matters as described throughout this paper.

The appropriateness of the disclosures in the financial statements will have an impact on the audit opinion. The more transparency is provided by entities about the implications of the coronavirus, the less likely it is that the auditor will need to modify the audit opinion.

The [CEAOB](#) notes that auditors may need to postpone the issuance of their report where possible. Otherwise they may need to modify their report if they have not been able to obtain sufficient audit evidence. The CEAOB also reminds auditors to consider whether they may have other reporting requirements to relevant authorities in accordance with the EU and local legislation.

The FRC published [guidance](#) on modified auditors' opinions and reports noting the possibility that current circumstances may require auditors to consider modifying their audit opinion.

In a guidance to its members, the Institute of Statutory Auditors in France (CNCC) recommends having an additional statement in the audit opinion paragraph. This statement will communicate the fact that the financial statements were approved based on the information available at the date of approval and in the evolving context of the coronavirus health crisis.

According to the IDW's [guidance](#), modification of the audit opinion as a result of a limitation of scope may be considered if the statutory auditor is unable to obtain sufficient appropriate audit evidence.

The [ICPAC](#) and [Luxembourgish Institute of Registered Auditors \(IRE\)](#) state that the auditor may need to consider issuing a modified opinion if management is unwilling to disclose material uncertainties which may cast significant doubt upon the entity's ability to continue as a going concern.

The [ICPAC](#) also notes that auditors may need to issue either a qualified opinion, for example if a single balance cannot be audited even after considering any alternative actions, or a disclaimer if the matter is pervasive throughout the account balances.

The [Belgian IBR/IRE](#) suggests that the auditor may consider providing more explanation about the impact of coronavirus on the overall audit strategy. This can be done by an 'other matter paragraph' and can provide useful contextual information to the users. However, the auditors should not use standard boilerplate language but should adapt the wording to the given circumstances.

The IAASB is currently working on another staff alert which will highlight matters for consideration related to auditor's reporting in the current evolving environment due to the impact of the coronavirus.

EMPHASIS OF MATTER PARAGRAPH

An Emphasis of Matter paragraph refers to a matter which is, in the auditor's judgment, fundamental to users' understanding of the financial statements. The matter should have been appropriately presented or disclosed in the financial statements. ISA 706 sets out the requirements and application material with regards to Emphasis of Matter paragraphs. Additionally, in cases where there is a material uncertainty related to going concern, ISA 570 requires having a separate section in the auditor's report with a heading that includes specific reference to the uncertainty.

Having an Emphasis of Matter paragraph is mentioned as an option (by the [CEAOB](#), [Belgian IBR/IRE](#), [ICPAC](#) and [Luxembourgish IRE](#)) to be considered in cases where the outbreak has a significant financial impact or creates a significant uncertainty, and this is appropriately disclosed in the financial statements. The Emphasis of Matter paragraph should clearly refer to the disclosure explaining the impact and/or uncertainty.

The [IDW](#) refers to the high degree of uncertainty in accounting estimates and going concern. If this circumstance is appropriately presented in the financial statements and management report of the entity, the attention may be drawn to this in the auditor's report by a separate section with a suitable heading.

The [Luxembourgish IRE](#) gives examples where an Emphasis of Matter may be considered: in case of a fund with liquidity issues, a manufacturing entity that had to stop production and a commercial entity whose shops will be closed for an unforeseeable period.

All guidance papers mentioned above point out that an Emphasis of Matter paragraph can neither replace a modification of the audit opinion nor the inclusion of a Key Audit Matter (KAM) in the auditor's report.

KEY AUDIT MATTERS (FOR PIEs)

In our previous [publication](#), we noted the inclusion of a KAM as one of the potential implications for the audit of Public Interest Entities (PIEs). This view is shared by all guidance papers considered in this publication. In the KAM, if applicable, the auditor will describe the audit approach and the alternative procedures carried out as well as the fact that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The [Belgian IBR/IRE](#) also recommends the auditor to determine whether there is a need for a revision of the KAMs on other areas considering the impact of the coronavirus.

OTHER INFORMATION

According to the [IAASB](#), the auditor should check whether there exists any inconsistency between the information provided in the entity's annual report and in the financial statements about the impact of the coronavirus.

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.

The [CEAOB](#) suggests that the audit profession and National Competent Authorities (i.e. public oversight bodies) continue their dialogue in national jurisdictions during these challenging times.

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

In addition to this publication, we also plan to look into matters relevant specifically for audits with 2020 closing dates. Our aim is to publish an overview of these main matters similar to this publication, including examples of available guidance.



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