

DEVELOPING AND DEPLOYING AN AUDIT RISK MODEL UNDER COVID-19 ENVIRONMENT



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INTRODUCTION



The effects of Covid-19 pandemic on the financial statements and reporting have resulted to various challenges in the audit environment, to the management and those charged with governance.

With the surge of the pandemic, there has been a level of uncertainties with the economy. This has affected majority of the industries in terms of their earnings/revenue to keep them afloat. This being a part among others the inputs of the financial statements.

Companies were forced to digitize their operations and the audit firms were pivoted to remote working and utilization of the various technologies available in undertaking their audits. The positive effect of this, is that the audit profession were already on the journey of digitization and the adoption of this was much quicker with little hiccups.

INTRODUCTION



Effects of the uncertainties:

- Obtaining sufficient and appropriate audit evidence
- Time frame of the audit
- Automation/Digitization - Investment
- Remote working due to the restricted movement
- Exercising significant professional judgement and skepticism and focus on ethical responsibilities.

PROFESSIONAL SKEPTICISM



Auditors may experience challenges especially where significant judgment is involved in areas like going concern, accounting estimates, completeness of data, valuation of assets e.t.c.

Areas where professional skepticism is required:-

- Planning and performing the audit including obtaining sufficient and appropriate audit evidence – ISA 200. (Overall objective of the audit and the conduct of the audit).
- Documentation provided for the judgements made to enable the auditor place reliance. ISA 230 (Audit documentation).

PLANNING



Understanding the entity and its environs

Our understanding of the entity has changed due to the pandemic from prior periods. The auditor has consider changes made by the TCWG. This could be in their objectives, strategy, organization structure, governance, staffing, business models etc.

Due the pandemic, risks that the auditor may consider in their planning that could give rise to material misstatements may include:

- Increased fraud risks
- Loss of finances/inadequate funds to meet obligation
- Lack of proper due diligence in the introduction or reduction of product/services
- Lack of appropriate expertise to deal with changes

PLANNING.....



Risk identification process

Due the changing environs from the pandemic, auditor needs to:-

- Consider how the pandemic affects their risk assessments, responses and audit procedures. (ISA 315).
- Remain alert for audit evidence of events or circumstances that cast doubt in the going concern of the entity (ISA 570) and should also consider assessments performed b the management.
- Consider any changes in the internal controls in their systems brought about by the pandemic.

PLANNING



Materiality

- Need to reassess the materiality based on the impact of the changes due to the pandemic. This may include the basis of the materiality as per ISA 320 (materiality in planning). This may be changed with any new information during the audit.

Controls

- Placing reliance on controls - Perform systems walkthroughs to understand the entity's controls. If onsite reviews are not possible, we may need to identify additional risk and or increase substantiative testing

PLANNING



Other consideration

- Reduced audit fees.
- Threat to independence due to the reduced fee.
- Appropriate resource allocation with the reduced fee.

AUDIT EVIDENCE



ISA 500, requires auditors to design and develop procedures to obtain sufficient audit procedures to be able draw conclusions to base the audit opinion.

As per ISA 210, the management are responsible to provide all the relevant information and unrestricted access to data and persons from whom to obtain the audit evidence. The pandemic has affected this as below:

- Ability to obtain and inspect original documents
- Availability of the client staff for inquiries

AUDIT EVIDENCE.....



Where the auditor cannot obtain sufficient evidence, he/she can:

- Design alternate procedures
- Assess the impact of the lack of sufficient evidence and consider modifying the audit report.

AUDIT EVIDENCE.....



ISA 500 explains the reliability of the audit evidence. This is influenced by the:-

- Nature of its source
- Circumstances of obtaining the evidence
- Controls that were existent at the time of the preparation of the evidence

Auditor, will need to:-

- Exercise skepticism about the evidence obtained electronically and
- Design additional procedures to test for reliability where original documents are not available.

AUDIT EVIDENCE.....



Example:-

With restriction in movements, auditor may not be able to visit various branches. They will need to deploy more time and additional tests to place reliance on the information obtained.

This may include:

- Video calls
- Detailed questionnaires and additional procedures
- Obtain information directly from the main source and perform the audit directly other than from the centralized location.

ACCOUNTING ESTIMATES



ISA 540 (Accounting estimates and related disclosures) – Requires auditor to obtain sufficient evidence whether the accounting estimates and disclosures are reasonable in the context of the framework.

The standard will help the auditor to:-

- Use inherent risk factors in identifying and assessing the risk of material misstatements with regards to accounting estimates. The risks may be : complexity, subjectivity.

ACCOUNTING ESTIMATES.....



- Degree of estimation will increase the level of uncertainties
- High level of uncertainties will increase the subjectivity
- High level of subjectivity increases the susceptibility of management Bias.

ACCOUNTING ESTIMATES.....



Key areas of consideration for the auditor would be:-

- Data used is relevant and reliable
- Changes in regulations that may affect the estimates
- Expected credit losses
- Revenue recognition to due recoverability/collection concerns

GOING CONCERN



Management is responsible for assessing its entity's ability to continue as a going concern
ISA 570 (Going concern), explains the responsibility of the auditor and the procedures to be done will be around the assessments done by management. This being:

- Obtain the evidence and conclude on the appropriateness of the management use of going concern basis
- Conclude based on the evidence if its free from material misstatements
- Report in accordance with ISA

GOING CONCERN.....



Auditor may also consider:

- Overall impact of Covid-19
- If the company has revised business plans/strategy
- Expectation and reliance of support

SUBSEQUENT EVETS



ISA 560 requires the auditor to:

- Obtain sufficient audit evidence between the date of the Financial statements and the date of the audit report.
- Ensure they have disclosed appropriately in accordance with the IFRS.
- Respond appropriately to information available post the date of the audit report relating to issues known by the auditor at the time of the audit, especially if they may have cause the auditor to amend their report.

AUDITOR'S REPORT



Uncertainties of the pandemic and the challenges of obtaining sufficient audit evidence experienced by the auditor, could result to a modified audit opinion.

The auditor may perform interim audit to check for:-

- Impact of Covid-19 on the financials
- Amended financial reporting framework i.e. compliance with IFRS 16
- Any departures from the requirements of the standards or controls

AUDIT REPORT.....



Example:

If the auditor , due to restrictions on the pandemic, is unable to obtain sufficient audit evidence say for inventory, he may:-

- Assess the materiality of inventory
- Assess the pervasiveness to the financial statements
- Decide on which modification is appropriate

CONCLUSION



Covid -19 has affected all industries, as auditors, we need to:

- Automate our audit process for ease of remote working
- Reassess the risks brought on by the changes emanating from the effects of the pandemic, our responses and derive additional procedures. This is enable us to obtain sufficient audit evidence and act as a basis in forming the audit opinion.



Q & A SESSION?