



# AUDIT APPROACH AND EVALUATION OF COVID-19 AND OTHER UNCERTAINTIES :

## A FOCUS ON KEY AFFECTED IFRS STANDARDS AND ISAS.

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# OBJECTIVES

**At the end of this session, delegates will be able to:**

- ▶ Describe the impact of COVID -19 on various International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs)
- ▶ Evaluate the impact of COVID-19 related uncertainties on an audit of financial statements.



# BACKGROUND

The Coronavirus outbreak poses a serious public health threat.

In response, the most governments took a number of actions, including the isolation of certain cities in areas most significantly affected, an extension of public holidays, and restrictions on the movement of people.

A number of businesses reduced or suspended operations and instructed employees to stay/ work from home.

From an international perspective, major airlines suspended flights to various parts of the world and many jurisdictions introduced entry restrictions or quarantine requirements on people who have travelled from countries seen as COVID hotspots.

Currently major airlines require an anti-COVID-19 vaccination certificate.



# BACKGROUND



DESTINATIONS FOOD & DRINK NEWS

## Ghana airport will fine airlines if they bring unvaccinated passengers to the country

Story by Reuters • Updated 14th December 2021

← Tweet



Citizen TV Kenya ✓  
@citizentvkenya

No Jab, No Service:  
Kenyans seeking in-person gov't services should be fully vaccinated – MoH says. Proof of vaccination while boarding PSVs, local flights and in restaurants

Poisons Board okays emergency use of Pfizer on persons aged 12 and above



# BACKGROUND

IAASB has stated that:

During the COVID-19 pandemic, audits should continue to comply with the required standards, which may necessitate different and enhanced considerations by auditors in the current circumstances.

Auditors may need to consider developing alternative procedures to gather sufficient appropriate audit evidence to support their audit opinion, or to modify the audit opinion.



# BACKGROUND





## POTENTIAL SIGNIFICANT AUDIT IMPLICATIONS

The COVID-19 pandemic may have a significant impact for group audits, component audits and other audits significantly affected.

Engagement teams will therefore need to consider the increased risk and the need for further audit procedures related to:

- ✓ Impairment of financial and non-financial assets including accounts receivable, intangibles and goodwill
- ✓ Ability to meet commitments
- ✓ Breaches of covenants in lending and other agreements
- ✓ Possible going concern issues
- ✓ Subsequent event disclosures.

## POTENTIAL SIGNIFICANT AUDIT IMPLICATIONS



Engagement teams will also need to consider the impact on the auditors' report from the preceding issues, ranging from disclosure of :

- Key Audit Matters;
- Emphasis of Matter paragraphs;
- Material uncertainty related to going concern ;and
- Modified opinions.

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS



## *Impairment-financial periods ending 31 December 2019.*

For the purposes of impairment tests in accordance with IAS 36, an initial question is whether the financial reporting effects of the Coronavirus Outbreak are required to be accounted for in the reporting period to 31 December 2019, or as a non-adjusting post balance sheet event.

The requirement, in accordance with *IAS 10 Events after the Reporting Period*, is to account for the significant changes

As at 31 December 2019, only certain events and associated actions had taken place such as the Wuhan Municipal Health Committee's issue on 30 December 2019 of an urgent notice in respect of the virus. Although cases were reported to the World Health Organisation on 31 December 2019, its announcement of Coronavirus as a global health emergency was not made until 31 January 2020 (following which national governments took action).

### *Impairment-financial periods ending 31 December 2019.*

Linked to this requirement, it will also be necessary to ensure that appropriate disclosures are made of non-adjusting post balance sheet events in financial statements for the period ended 31 December 2019.

IAS 10.21 requires that:

‘If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- The nature of the event; and
- An estimate of its financial effect or a statement that such an estimate cannot be made.’

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS



## *Impairment-financial periods ending 31 December 2019.*

On this basis, it is expected that forecasts, projections and associated assumptions used for the purposes of impairment testing would reflect either little or no change as a result of the Coronavirus Outbreak.

The rationale for this is that, when measuring the recoverable amount of financial and non-financial assets, it is necessary to use projections that are based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

**Those reasonable and supportable assumptions are required to be made as at the reporting date - 31 December 2019.**

Consequently forecasts, projections and valuations used for impairment calculations as at 31 December 2019 will need to be reviewed carefully, in order to ensure that the significant effects of the Coronavirus Outbreak (a non-adjusting post balance sheet event) are not being incorporated through the use of hindsight.

### *Impairment-financial periods ending 31 December 2019.*

Disclosures in 31 December 2019 financial statements that may be necessary as a result of the Coronavirus Outbreak include:

- Estimates of impairment of financial (expected credit losses) and non-financial assets
- Breaches of covenants in lending or other arrangements
- Triggers of conditions which give rise to debt or other instruments being required to be redeemed (or being repayable at the option of the counterparty)
- Waivers of, or changes to, the contractual terms of lending or other arrangements
- Supply chain or other trading disruption
- Dealing with suspension or termination of contracts, and the assessment of whether a contract for the sale or purchase of goods or services is an onerous contract.

*Going concern -financial periods ending 31 December 2019.*

IAS 10 *Events After the Reporting Period* contains specific requirements when considering going concern.

In contrast to projections used for the purposes of impairment, entities are required to consider events both before and after the reporting date, with IAS 10.15 noting that:

‘Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment of the amounts recognised within the original basis of accounting.’

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS



*Going concern -financial periods ending 31 December 2019.*

In making its assessment of going concern, information that becomes available after the reporting date needs to be taken into account.

IAS 1.26 requires that:

*'...management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the fact in each case...'*

Consequently, engagement teams will need to consider whether management's assessment of going concern incorporates all relevant information, including information about the future for an appropriate period, that has become available up to the date on which the financial statements are authorized or approved for issue.

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS

*Going concern -financial periods ending 31 December 2019.*

As a result, it is necessary to consider whether the events that have occurred after an entity's 31 December 2019 reporting date in relation to the Coronavirus Outbreak have caused a significant deterioration in economic conditions for an entity, or have introduced significant uncertainty.

If so, an assessment is needed of whether this results in significant doubt on the entity's ability to continue as a going concern (IAS 10.16(b)).

In extreme cases, consideration will be needed of whether the financial statements for the period to 31 December 2019 should be prepared on a going concern basis.

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS



## *Going concern -financial periods ending 31 December 2019.*

In reviewing the work that management has carried out in its assessment of going concern, engagement teams need to carry out a robust and sceptical evaluation, including:

- Challenging management's forecasts and assumptions in order to obtain evidence that the effects of the Coronavirus Outbreak have been appropriately and satisfactorily included in the forecasts that have been used to support the going concern assertion;
- Consideration of whether the forecasts and assumptions are appropriate in the context of the overall economic environment and conditions, and the engagement team's understanding of the entity.

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS



## *Going concern -financial periods ending 31 December 2019.*

In circumstances in which the Coronavirus Outbreak gives rise to a material uncertainty over an entity's ability to continue as a going concern, but it has been concluded that the going concern basis of preparation remains appropriate, management need to include expanded disclosures to support its conclusion that the going concern basis of preparation is appropriate.

These will include (ISA 570.19):

- Adequate disclosures about the Coronavirus Outbreak and management's plans to deal with its effects; and
- Clear disclosure that there is a material uncertainty over the entity's ability to continue as a going concern, and therefore that it may be unable to realize its assets and discharge its liabilities in the ordinary course of business.

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS



*Going concern -financial periods ending 31 December 2019.*

Engagement teams need to ensure that sufficient and appropriate disclosures have been made.

Disclosures about the effects of the Coronavirus Outbreak are also likely to appear in the narrative sections of annual reports.

Engagement teams need to ensure that those disclosures are consistent with those made in the financial statements, and with wider current and forecast economic and other conditions.

## *Significant audit implications*

There may be challenges for auditors in completing audits arising from:

- Difficulties in obtaining information needed to carry out audit procedures
- Difficulties in obtaining access to client management and staff
- Difficulties in obtaining confirmations from third parties (such as banks and debtors)
- Inability to access physical locations (for example, to physically verify the existence of certain assets)
- Difficulties in updating their assessment of the effectiveness of the audited entity's control environment
- Difficulties in updating the ISA315 risk assessment

# POTENTIAL SIGNIFICANT FINANCIAL REPORTING IMPLICATIONS

## *Significant audit implications*

### **Audit reports**

Engagement teams will need to consider the following points in particular:

- ✓ The Coronavirus Outbreak may give rise to a new **Key Audit Matter (ISA 701)**
- ✓ An **emphasis of matter paragraph** may be required to draw attention to disclosures in the financial statements about the significant subsequent event **(ISA 706)**
- ✓ If disclosures about the subsequent event and/or the potential effects on going concern are inadequate, a qualified audit report may be appropriate **(ISA 705)**
- ✓ There may be a material uncertainty in relation to going concern **(IAS 1; ISA 560)**
- ✓ In the event that it has not been possible to obtain appropriate audit evidence for some components of a group audit, a qualified opinion (or disclaimer) may be appropriate **(ISA 705; ISA 600)**



## Impact on the audited entity, its control environment and its ability to provide information

The auditor will need to :

- Understand the impact on the entity and any components through engagement with management and other personnel at the entity and/or with BDO personnel.
- Reconsider whether materiality decisions made at the planning stage remain valid.
- Consider implications for the entity's control environment. For example, controls may not be operating as designed in respect of the year end close process.

## Impact on the audited entity, its control environment and its ability to provide information

The auditor will need to :

- Consider to what extent the entity's, and any component's, ability to prepare necessary information has been affected. How does it intend to obtain the information needed for the preparation of the financial statements?
- Understand whether the reporting timetable has been set due to regulatory or other deadlines, such as reporting on covenants. If it reflects entity preference only, a delay should be encouraged to allow local management and auditors time to recover from the disruption resulting from the virus.
- Are there increased threats to auditor objectivity; for example, is management likely to ask the auditor to prepare its information? What additional safeguards can be put in place?

## Implications for the quality of audit evidence and reporting



- Consider whether there is a need to update the ISA 315 risk assessment, including holding an additional engagement team meeting.
- There may be increased risk of material misstatement due to error and/or fraud.
- Error because of the impact on the entity's staff's ability to effectively carry out their work.
- Fraud because of increased incentives or pressures as a result of the adverse impact of the business disruption, and/or increased perceived opportunities.
- Consider how to ensure that sufficient professional skepticism is maintained particularly when considering future assumptions made by the entity in the context of business and economic uncertainty.
- Consider how planned audit procedures might be affected and whether alternative (and/or innovative) procedures need to be considered.



## Implications for the quality of audit evidence and reporting

- Where virtual meetings have been held, document and evidence the meeting and its activities in accordance with audit standards.
- Ensure that where an Engagement Quality Control Reviewer (EQCR) is appointed, the EQCR reviews and agrees with the risk assessment and conclusions as the sufficiency and appropriateness of the audit evidence.
- Step back before any report is issued; has sufficient appropriate audit evidence been obtained to reduce audit risk to an acceptably low level? Or do you need to qualify or disclaim your opinion?



## Implications for the quality of audit evidence and reporting

- Are there Key Audit Matters in respect of the impact of the virus that should be included in the audit report?
- Is an Emphasis of Matter paragraph needed, for example to highlight particular risks and impacts of the virus?
- Ensure those charged with governance are kept informed of potential delays and challenges and of the need, despite the unprecedented circumstances, to comply with standards



## Potential effects of the Coronavirus Outbreak on 2020 reporting periods and onward

The financial reporting implications for entities may be similarly broad, and the precise effects will depend on the facts and circumstances of each entity.

As time elapses and the effects of the outbreak change and evolve, it may become difficult to distinguish which information and facts and circumstances should be incorporated into measurement as at period end and which should result in potential subsequent event disclosure.

The following are financial reporting considerations that entities and engagement teams need to consider.



onward

## Impairment of assets and provisions

IFRS Standard	Potential impact of the coronavirus	Notes
IFRS 9 Financial instruments	<ul style="list-style-type: none"> <li>• Increase in expected credit losses;</li> <li>• Modifications to financial assets and liabilities (e.g. concessions to payment terms);</li> </ul>	<ul style="list-style-type: none"> <li>○ Expected credit losses may increase due to an increase in both the probability of default ('PD') and the loss given default ('LGD') for financial assets.</li> <li>○ As all financial assets subject to ECL require the PD to be estimated over the next 12 months, the effects of uncertainty relating to coronavirus may be very significant.</li> <li>○ Additionally, the effects of the coronavirus may trigger a significant increase in credit risk, and therefore the recognition of a lifetime ECL provision on many financial assets.</li> </ul>



onward

## Impairment of assets and provisions

IFRS Standard	Potential impact of the coronavirus	Notes
IFRS 9	<ul style="list-style-type: none"> <li>• Increase in expected credit losses;</li> <li>• Modifications to financial assets and liabilities (e.g. concessions to payment terms);</li> </ul>	<ul style="list-style-type: none"> <li>○ Lenders and borrowers may also enter into agreements to modify the terms of financial instruments such as bank loans.</li> <li>○ These modifications may take the form of reduced interest rates, modification to payment terms and ‘grace periods’ for covenant violations.</li> <li>○ Entities should consider the requirements of IFRS 9 for the modification of assets (for lenders) and liabilities (for borrowers).</li> <li>○ These modifications will generally give rise to gains for borrowers and losses for lenders.</li> </ul>



onward

## Impairment of assets and provisions

IFRS Standard	Potential impact of the coronavirus	Notes
IAS 36	<ul style="list-style-type: none"> <li>Indicators of impairment may exist for assets subject to impairment (e.g. property, plant and equipment, right-of-use assets, certain intangibles, etc.);</li> <li>Value in use calculations may need to be adjusted (e.g. revised cash flows and/or adjusted discount rate).</li> <li>Fair value less costs of disposal may decrease and active markets for certain types of assets may disappear</li> </ul>	<ul style="list-style-type: none"> <li>Similar to an assessment of going concern cash flows included in either a value-in-use or a fair value less costs of disposal calculation need to consider all available information.</li> <li>Given the disruption to operations, the cash flow forecasts will need to incorporate extremely severe 'down side' forecasts.</li> <li>The effect will vary depending on industry sector; for leisure, travel and retail a reasonable starting point may be the effect of a country 'lockdown' for a period of 2-3 months with little or no revenue being generated during this time.</li> <li>All entities subject to audit will need to be challenged to ensure that the downside scenarios are sufficiently severe.</li> </ul>



onward

## Impairment of assets and provisions

IFRS Standard	Potential impact of the coronavirus	Notes
IAS 2: Inventories	<ul style="list-style-type: none"> <li>• Net realizable values may decrease, resulting in increased impairment;</li> <li>• If production is decreased, entities must consider that fixed overheads are allocated based on 'normal capacity'.</li> </ul>	<ul style="list-style-type: none"> <li>○ If an entity ceases production or significantly reduces production for a period, significant portions of fixed production overheads (e.g. rent, depreciation of assets, some fixed labour, etc.) will need to be expensed rather than capitalized, even if some reduced quantity of inventory continues to be produced.</li> </ul>



## onward

IFRS Standard	Potential impact of the coronavirus	Notes
IFRS 6: Exploration for and Evaluation of Mineral Resources	<ul style="list-style-type: none"><li>• If the reporting entity has elected to capitalize exploration and evaluation assets, indicators of impairment may exist.</li></ul>	<ul style="list-style-type: none"><li>○ Given the significant decrease in global commodity prices, significant impairment of exploration and evaluation assets is expected.</li></ul>



IFRS Standard	Potential impact of the coronavirus	Notes
IAS 28, Investments in Associates and Joint Ventures	<ul style="list-style-type: none"> <li>• Reductions in the carrying value of investments accounted for in accordance with the equity- method due to losses incurred;</li> <li>• Possible impairment of carrying value of investment;</li> <li>• Entities may be required to record liabilities for losses incurred beyond the carrying value of their investment.</li> </ul>	<ul style="list-style-type: none"> <li>○ Before applying the equity method, an entity must first recognise expected credit losses in accordance with IFRS 9 if an investment in an associate or joint venture includes a long-term interest that is subject to ECL (e.g. a loan to the investee).</li> <li>○ After an investor has recorded its share of income from an associate or joint venture as required by the equity method, the remaining carrying value of the investment is still subject to further impairment requirements. An entity applies IAS 36 to the remaining carrying value</li> <li>○ After the carrying value of an interest in an associate or joint venture is reduced to zero, additional losses and a liability are accounted for if the investor has a legal or constructive obligation to make payments on behalf of the associate or joint venture. The effects of the COVID-19 outbreak may make this type of arrangement more common.</li> </ul>



IFRS Standard	Potential impact of the coronavirus	Notes
IAS 37, Provisions, Contingent Liabilities and Contingent Assets	<ul style="list-style-type: none"> <li>• Onerous contracts may exist for contractual or constructive obligations (e.g. revenue contracts, purchase contracts for which no benefit will now be obtained by the entity);</li> <li>• Insurance recoveries relating to losses incurred due to the outbreak may not meet recognition requirements in a reporting period (i.e. recovery may not be 'virtually certain').</li> </ul>	<ul style="list-style-type: none"> <li>○ While IAS 37 does not permit the recognition of future operating losses as liabilities, losses arising from onerous contracts may increase as the unavoidable costs may exceed the economic benefits derived from the contract.</li> <li>○ For example, if an entity is obligated to pay costs for a conference held after the end of the reporting period, but it has cancelled the conference due to the COVID-19 outbreak, the cost of the conference would be recognised as a liability at the time of cancellation as it would be an onerous contract (i.e. unavoidable costs exceed the economic benefits)..</li> </ul>





IFRS Standard	Potential impact of the coronavirus	Notes
IAS 12, Income Taxes	<ul style="list-style-type: none"><li>Deferred tax assets may not meet recoverability requirements and therefore may not meet the recognition criteria in IAS 12.</li></ul>	<ul style="list-style-type: none"><li>Similar to an assessment of going concern, an assessment of the likelihood of an entity being able to recover the value of deductible temporary differences needs to consider all available information.</li><li>Given the disruption to operations, forecasts may need to incorporate extremely severe 'down side' forecasts.</li><li>Tax losses and other deductible temporary differences having no fixed expiry or a very long-term expiry (e.g. 20 years) is not justification for the recognition of associated deferred tax assets.</li></ul>



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## Going Concern

As required by IAS 1 *Presentation of Financial Statements*, it is management's responsibility to make an assessment of an entity's ability to continue as a going concern and provide appropriate disclosures relating to how that assessment was performed and its results.

Financial statements in accordance with IFRS are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or there is no realistic alternative to do so (IAS 1.25).

In making this assessment, management must consider all available information about the future, which must extend at least 12 months into the future. If information is available beyond 12 months that is relevant in management's assessment, then it must be included as well.



onward

## Going Concern

The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts.

The decreases in asset values, decline in demand for goods and services and supply chain disruptions may be dissimilar to any previously encountered ‘real world’ scenario, making forecasting the precise results difficult.

While the requirements of IAS 1 are not prescriptive as to how management’s assessment is performed, in circumstances where significant uncertainty exists surrounding the outcome of future events, it may be appropriate to model multiple scenarios and weigh their likelihood.

In some sectors, ‘worst case’ scenarios included in an assessment may have to consider little to no revenue for extended periods of time if entities are required to cease trading operations. ‘Negative’ or ‘worst case’ scenarios may also need to be weighted quite heavily due to the level of uncertainty as to how the effects of the outbreak will unfold and how long they will endure.



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## Going Concern

The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern.

Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.



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## Going Concern

- In reviewing the work that management has carried out in its assessment of going concern, engagement teams need to carry out a robust and skeptical evaluation, including:
- Challenging management's forecasts and assumptions in order to obtain evidence that the effects of the outbreak have been appropriately and satisfactorily included in the forecasts that have been used to support the going concern assertion;
- Sufficient professional skepticism. The effects of the outbreak may be unprecedented and more significant than any shocks previously encountered by reporting entities.
- Engagement teams must ensure they are sufficiently skeptical of any projections provided by management, especially as restrictions on trade and movement are expected to increase in the future;

Ensuring the 'down side' of any projections are sufficiently severe based on the entity's sector



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## General financial statement presentation, measurement and disclosures

IFRS Standard	Potential impact of the coronavirus	Notes
<b>IAS 1</b>	<ul style="list-style-type: none"><li>• Classification of assets and liabilities as current or non-current. Assets may no longer be consumed or settled in an entity's 'normal operating cycle'.</li><li>• Liabilities may become due on demand due to breaches of contractual terms and covenants and therefore will be classified as current liabilities.</li></ul>	



onward

## General financial statement presentation, measurement and disclosures

IFRS Standard	Potential impact of the coronavirus	Notes
IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	<ul style="list-style-type: none"> <li>• Sales of non-current assets or disposal groups may not meet the ‘highly probable’ criteria to be classified as held for sale due to disappearance of existing market and/or necessary buyers;</li> <li>• If entities reduce operations, components that are disposed of or cease operations may meet the definition of discontinued operations and require separate presentation and disclosure.</li> <li>• However, non-current assets or disposal groups that are to be abandoned and not sold are not permitted to be classified as held for sale.</li> </ul>	<ul style="list-style-type: none"> <li>○ Conversely, it is also possible that more assets may be classified as non-current assets held for sale if the effects of the outbreak require entities to liquidate certain assets.</li> </ul>



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## General financial statement presentation, measurement and disclosures

IFRS Standard	Potential impact of the coronavirus	Notes
IFRS 7, Financial Instruments: Disclosures	<ul style="list-style-type: none"> <li>• Risks arising from financial instruments may require extensive disclosure.</li> <li>• Disclosure of credit risk arising from financial assets (e.g. loans receivable, trade receivables, etc.), may need to be expanded significantly due to significant judgments and estimates;</li> <li>• Disclosure of liquidity risk may need to be expanded, especially in instances where a lack of liquidity may significant impact an entity's to continue its operations;</li> <li>• Disclosure of market risks may need to be expanded when the entity's operations are significantly affected by changes in market risks (e.g. currency, interest rate and other price risks);</li> <li>• Disclosure of defaults and breaches of loans payable require disclosure surrounding the details of the default.</li> </ul>	<ul style="list-style-type: none"> <li>○ IFRS 7 requires entities to disclose quantitative and qualitative information about the nature and extent of risks arising from financial instruments.</li> <li>○ This information is required to be sufficient to enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed.</li> </ul>

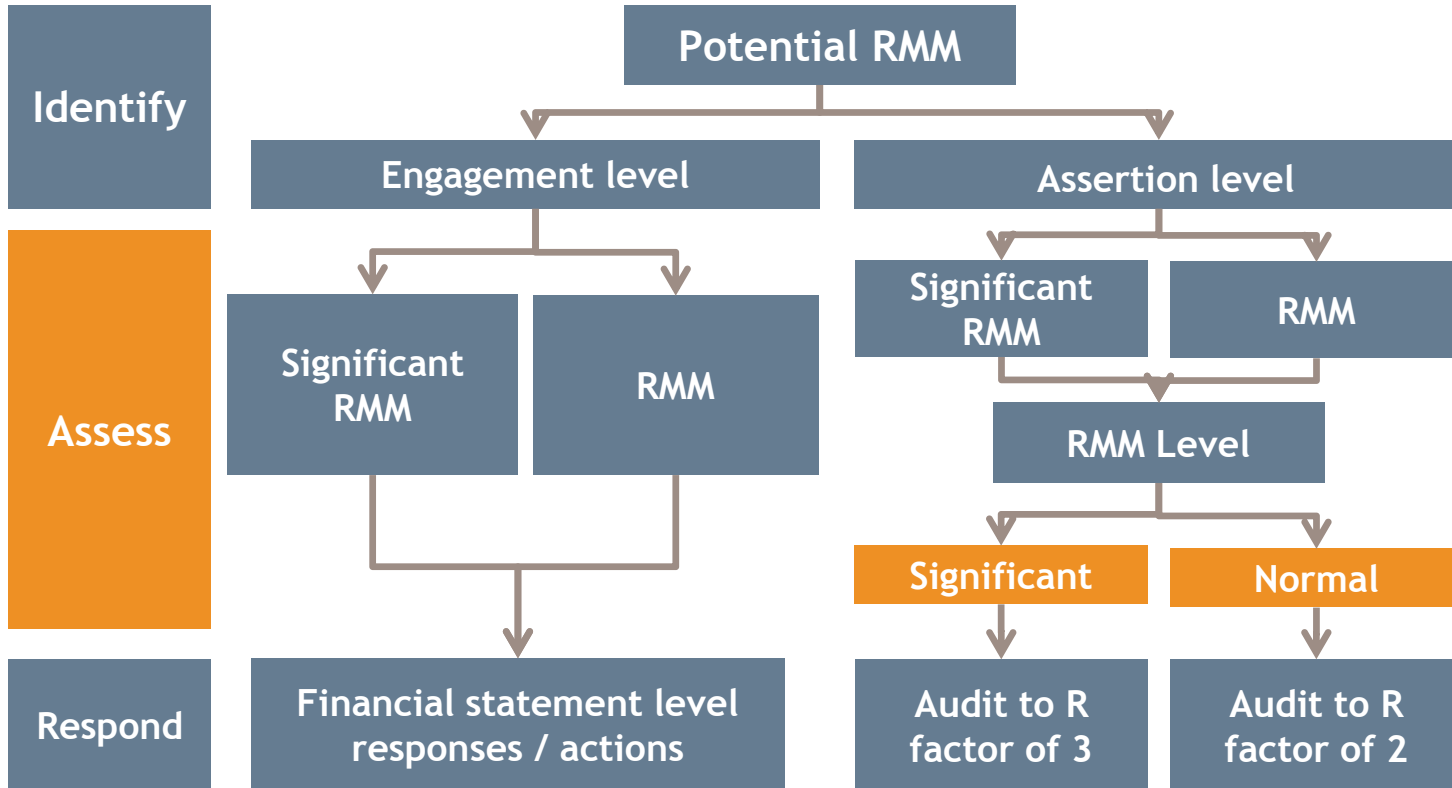


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## General financial statement presentation, measurement and disclosures

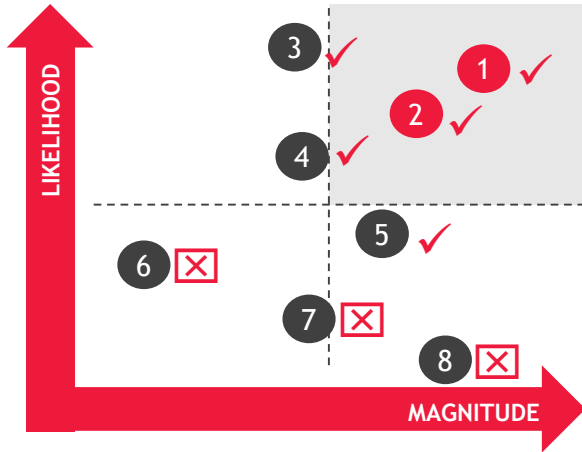
IFRS Standard	Potential impact of the coronavirus	Notes
IFRS 13, Fair Value Measurement	<ul style="list-style-type: none"> <li>• Fair value is an ‘exit price’ in an ‘orderly’ transaction. The effects of the virus may make it challenging to estimate the price that would be obtained due to highly volatile markets and/or a lack of an active market existing;</li> <li>• The level in the fair value hierarchy for inputs into fair value measurements may shift, in particular from level 2 to level 3 with associated enhanced disclosures.</li> </ul>	<ul style="list-style-type: none"> <li>○ Current market conditions may appear to be a ‘distress sale’, however, if such conditions exist broadly in the market, then those factors should be incorporated into a fair value measurement.</li> <li>○ It would generally be inappropriate to adjust a measure for expected ‘rebounds’ in value.</li> <li>○ For financial instruments with level 1 prices (quoted on an active market), even if there is a significant decline in activity on that market this does not mean that the price has become unobservable.</li> </ul>

# RISKS OF MATERIAL MISSTATEMENT



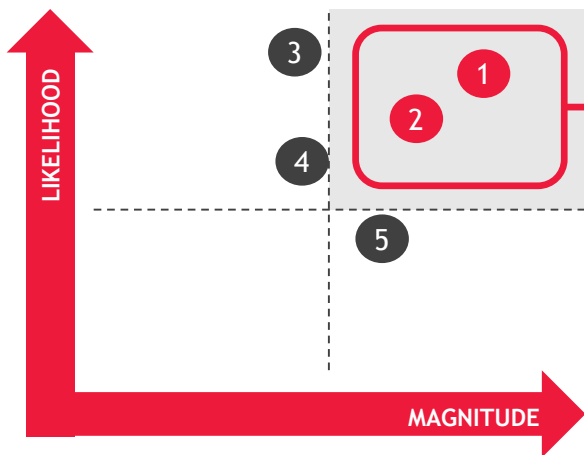
# RMM (NO LONGER JUST 'POTENTIAL')

*“Matters identified by the team which, based on the team’s knowledge at that point in time, they believe could result in an assessed risk of material misstatement (‘RMM’), either due to fraud or error.”*



# SIGNIFICANT RMM

*“Significant RMMs are those RMMs which, in our judgement, require special audit consideration. In making this judgement, we exclude the effects of identified controls related to that risk.”*



Special audit consideration

# IMPLICATIONS OF COVID-19 ON THE AUDIT OF FINANCIAL STATEMENTS

## FINAL THOUGHTS

- ❑ Declining financial health of entities may lead auditors to:
  - ✓ Identify additional risks (including error and fraud risks) which require us to plan additional audit procedures responsive to those risks or seek out alternative evidence that is more persuasive.
  - ✓ Design audit procedures to focus on those areas that were most susceptible to error and fraud (for example, establishing which parts of the accounting function were most impacted, the timeframe or where controls were overridden).
  - ✓ Consider whether procedures using data for comparison and analysis purposes (such as Substantive Analytical Procedures or Data Analytics Tests) may provide lower levels of assurance.
- ❑ Remain alert and apply heightened professional skepticism (e.g., in relation to IPE, management explanations/ rationale and items within the financial statements that are based on judgments).
- ❑ Seek to understand what management and TCWG have done to prevent or detect errors and fraud being made by entity staff and management in 2020.

