

Hong Kong Institute of CPAs



Auditing and COVID-19, A quick guide



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Introduction

Even during the COVID 19 pandemic, audits must continue to comply with the required standards. The current circumstances may necessitate different and enhanced considerations by auditors. Auditors may also need to consider developing alternative procedures to gather sufficient appropriate audit evidence to support their audit opinion, or to modify the audit opinion.

The Hong Kong Institute of CPAs has put together a summary of the key issues and considerations impacting the audit of financial statements as a result of the pandemic. The summary is set out in an order that generally follows the flow of the process of an audit. It includes links to resources from global accounting bodies to help members navigate some of the challenges for the next reporting.

Please note that the summary and the list of resources are not intended to cover all the practical and technical issues in an audit in the current situation. Members are to refer to the auditing standards for all the requirements.



Risk identification and assessment procedures

Issues

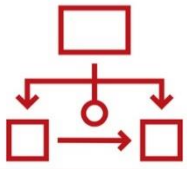
- The COVID-19 outbreak may disrupt entities' business operations and financial reporting processes. There is an unprecedented level of uncertainty about the economy, future earnings and many other inputs that represent fundamental elements of financial reporting.
- Given these uncertain times, there may be new or heightened risks of material misstatement compared with prior audits.
- Increased pressure on management may result in heightened fraud risks and greater incentive to override controls.
- Auditors may face additional pressure to lower the level of the audit fee for services in progress or to be provided.

Considerations

- Auditors should discuss with management and those charged with governance (TCWG) how they have assessed the impact of COVID-19 and evaluate whether there are new or changed risks that could be material.
- If a new significant risk is identified, auditors should obtain an understanding of the entity's controls and control activities relevant to that risk.
- If an auditor is unable to perform walkthroughs on internal controls or undertake tests of controls, he/she may need to consider if there are additional risks of material misstatement, and to change the audit response and increase substantive testing.
- Audit teams should enhance the direction and supervision of less experienced team members and modify the nature and extent of review of their work.
- Auditors should exercise significant professional judgement and professional scepticism, maintain independence and remain focused on their ethical responsibilities and the public interest.

Resources

- HKICPA Financial Reporting, Auditing and Ethics Alert: [Impact of Coronavirus Outbreak on Audits and Auditors](#)
- IFAC: [Summary of COVID-19 audit considerations](#)
- IFAC Webinar Series: Practical audit quality considerations [Webinar 1 - Planning the audit in the pandemic environment: Recording & summary of key takeaways](#)
- IAASB Staff Alert: [Highlighting areas of focus in an evolving audit environment due to the impact of COVID-19](#)
- IESBA Staff Alert: [COVID-19: Ethics and independence considerations](#)
- Journal of Accountancy: [How the coronavirus may affect financial reporting and auditing](#)
- Journal of Accountancy: [Tips for auditing with changed controls during the pandemic](#)
- Journal of Accountancy: [4 key COVID-19 audit risks for 2020 year ends](#)



Design and perform audit procedures

Issues

- Both preparers and auditors may be affected by travel restrictions and requirements to stay at homes which present practical challenges to an audit engagement.
- Companies may obtain information in new or different ways and/ or operate controls over the production of financial information differently.
- The changing circumstances and uncertainty may impact the selection and application of the method or data used in developing accounting estimates, while obtaining reliable data may be more challenging.
- The uncertainty about the economic impact including for how long this pandemic will last has added further complexity and challenges when auditing accounting estimates.
- Experience of prior audits is not likely to be representative of the current and future environment.
- Uncertainties arising from the pandemic may increase the level of challenge to obtain sufficient appropriate audit evidence.

Considerations

- If the auditor cannot obtain evidence in the way it was obtained before, consideration should be given to alternative procedures.
- Auditors should exercise professional scepticism about the evidence obtained electronically and may need to design additional procedures to test its reliability.
- Given the challenges in the current environment, auditors should document their judgements on how they respond to the difficulties and uncertainties encountered during the engagement.

Resources

General

- IFAC Webinar Series: Practical audit quality considerations [Webinar 2 – Performing the audit in the pandemic environment: recording & summary of key takeaways](#)
- CPA Canada: [The changing nature of audit evidence arising from COVID-19](#)
- Journal of Accountancy: [Pandemic-specific guidance for auditors and preparers](#)

Revenue

- ICAEW webcast: [Coronavirus \(COVID-19\): Accounting for and auditing revenue](#)

Inventory

- ICAEW: [Coronavirus \(COVID-19\): Considerations for inventory audit testing](#)
- ICAEW: [Coronavirus, stocktake attendance and the auditor's report](#)
- ICAS: [COVID-19 Implications for attendance at stocktakes for financial years ending on or after 31 March 2020 guidance for auditors](#)

Accounting estimates

- IAASB Staff Alert: [Auditing accounting estimates in the current evolving environment due to COVID-19](#)
- Center for Audit Quality: [Auditing accounting estimates in the COVID-19 environment](#)

Group audit

- ICAEW: [Coronavirus considerations for group audit](#)
- ISCA: [Group audits - Inaccessibility of component auditors' work papers and other considerations](#)

Remote auditing

- AICPA webinar: [Remote auditing during COVID-19](#)
- Journal of Accountancy: [Remote auditing comes to forefront during pandemic](#)
- ICAEW: [Remote auditing frequently asked questions](#)
- ICAEW: [Remote audits: disclose, disclose, disclose](#)



Evaluate going concern basis of accounting

Issues

- Travel restrictions in numerous jurisdictions may have resulted in cash flow difficulties for entities, such as the ability to collect debts when they fall due.
- The deteriorating economic conditions and uncertainties will affect the reliability of income and cash flow forecasts by management.
- Government relief programmes and financial assistance may affect management's going concern assessment.
- Aligning the going concern evaluation for group and subsidiary reporting purposes may represent a challenge.

Considerations

- Auditors should evaluate whether an entity has access to sufficient liquidity and can remain solvent through the pandemic and beyond.
- Auditors should heighten professional judgement in assessing the adequacy of going concern disclosures in financial statements.
- Auditors should determine if a modification in light of the going concern issues is necessary and make appropriate disclosure in the auditor's report.

Resources

- Center for Audit Quality: [Going concern: Management and auditor responsibilities](#)
- IAASB Staff Alert: [Going concern in the current evolving environment—Audit considerations for the impact of COVID-19](#)
- ICAEW: [Coronavirus, going concern and the auditor's report](#)
- ICAEW: [Coronavirus: \(COVID-19\): considering going concern](#)
- Journal of Accountancy: [Going concern tips for auditors during the pandemic](#)
- KPMG: [What are the relevant going concern considerations?](#)



Evaluate the impact and disclosure of subsequent event

Issues

- The pandemic may impact how companies evaluate and disclose events after the reporting date, and require management's significant judgement to do so.
- Given the COVID-19 pandemic is evolving rapidly, management may need to continually review and update the subsequent event assessments up to the date when the financial statements are issued.
- Depending on the company's reporting date and circumstances, the impacts of the COVID-19 outbreak could be adjusting or non-adjusting events.

Considerations

- Auditors should work with management and TCWG to ensure subsequent events have been accurately identified and reflected in the financial statements.
- Auditors may need to design and perform enhanced or additional procedures when auditing subsequent events.
- Auditors should consider the impact of subsequent events on asset valuation/impairment assessment and management's disclosures of relevant risks.

Resources

- IAASB Staff Alert: [Subsequent events in the current evolving environment—Audit considerations for the impact of COVID-19](#)
- KPMG: [How should companies assess COVID-19 events after the reporting date](#)



Auditor reporting

Issues

- The need for a modified opinion may arise because certain audit procedures cannot be performed (for example physical inventory testing) and no other alternative procedures can be undertaken.
- Management's key judgements in areas such as asset and liability valuations, going concern basis of accounting and significant accounting estimates may be difficult to support in the light of uncertainty or not agreed by the auditor.

Considerations

- Auditors should determine if a modification is necessary and make appropriate disclosures in the auditor's report.
- Auditors may consider including an emphasis of matter paragraph in the auditor's report to draw attention to certain disclosures in the financial statements.
- Where applicable, additional focus may be needed in determining the key audit matters reported in the auditor's report because of the changing circumstances and difficulties arising from the COVID-19 pandemic.

Resources

- IAASB Staff Alert: [Auditor reporting in the current evolving environment due to COVID-19](#)
- IAASB Staff Alert: [Review engagement on interim financial information in the current evolving environment due to COVID-19](#)
- ICAEW: [Coronavirus: Understanding audit reports](#)
- IFAC Webinar Series: Practical audit quality considerations [Webinar 3 - Auditor reporting in the pandemic environment and looking ahead: Recording & summary of key takeaways](#)
- UK FRC: [Modified audit opinions during COVID-19 crisis](#)

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