

## Going Concern in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19

*This publication has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to, and concluding on, the appropriateness of management's use of the going concern basis of accounting in accordance with the International Standards on Auditing™ (ISA™).*

*This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.*

*Preparers, those charged with governance and users of financial statements may find this publication helpful in understanding the auditor's responsibilities in relation to going concern, as well as any modifications made to the auditor's report in respect of any uncertainties related to going concern.*

Many factors impact the ability of an entity to continue as a going concern. These factors include the industry and geographic area of operations, the financial health of customers and suppliers, and financial liquidity and solvency of the entity. As a result of the COVID-19 pandemic and the associated deteriorating economic environment, reduced revenues and cash flows could raise questions about the entity's ability to meet its current or new obligations and comply with debt covenants.

This Staff Audit Practice Alert focuses on the implications of the COVID-19 pandemic for the auditor's work related to going concern, including the potential impacts on:

- Management and the auditor's respective responsibilities in relation to going concern;
- Risk assessment procedures undertaken by the auditor and their evaluation of management's assessment of the entity's ability to continue as a going concern;
- Periods beyond management's assessment;
- Additional procedures required when events or conditions are identified which may cast doubt on the entity's ability to continue as a going concern;
- Implications for the auditor's report and the auditors' consideration of Other Information; and
- Significant delays in the approval of financial statements.

In completing work related to going concern in the current environment, auditors should focus on all the requirements set out in [ISA 570 \(Revised\), Going Concern](#), with full consideration given to the entity's specific circumstances before any conclusions are reached. In completing the work on going concern, the importance of exercising professional skepticism is amplified, particularly where management have determined that the current circumstances are not expected to have any material financial impact on the entity and that no material uncertainties related to going concern exist for the entity.

## Management’s and Auditor’s Responsibilities



Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future, unless management intends to liquidate the entity or cease operations, or has no realistic alternative but to do so. When the going concern basis of accounting is used, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

### Management’s Responsibilities

- **Assessing the entity’s ability to continue as a going concern**, either:
  - In terms of an explicit requirement in the applicable financial reporting framework;<sup>1</sup> or
  - Where there is no explicit requirement in the applicable financial reporting framework, but going concern is still a fundamental principle in preparing the financial statements
- **Making a judgment at a point in time** about inherently uncertain future outcomes of events or conditions
- **Making and disclosing judgments** relevant to:
  - The degree of uncertainty associated with the outcome of an event or condition (for example, how this increases the further into the future an event or condition or the outcome occurs)
  - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors
  - The future (based on information available at the time at which the judgment is made)



### Auditor’s Responsibilities

- **Obtaining sufficient appropriate audit evidence, and concluding on**, the appropriateness of management’s use of the going concern basis of accounting
- **Concluding**, based on the audit evidence obtained, **whether a material uncertainty exists** about the entity’s ability to continue as a going concern
- **Reporting** as appropriate

The potential effects of inherent limitations on the auditor’s ability to detect misstatements are greater for future events or conditions that may cause the entity to cease to continue as a going concern. ...The absence of any reference to a material uncertainty about the entity’s ability to continue as a going concern in the auditor’s report cannot be viewed as a guarantee as to the entity’s ability to continue as a going concern (ISA 570 (Revised), paragraph 7).

<sup>1</sup> For example, International Accounting Standard (IAS) 1, Presentation of Financial Statements, requires management to make an assessment of the entity’s ability to continue as a going concern (paragraphs 25-26)

With circumstances changing rapidly due to COVID-19, this is likely to affect how management and auditors fulfill their respective responsibilities:

### Management

- Management’s assessment of the entity’s ability to continue as a going concern is likely to be more challenging
- Management and those charged with governance may need to provide users of financial statements additional and more robust disclosures in the entity’s financial statements relating to events or conditions affecting the entity’s ability to continue as a going concern

### Auditors

- A corresponding need for additional or enhanced audit procedures for the auditor to be able to conclude on the appropriateness of management’s assessment with regard to going concern (areas for consideration in the current circumstances are described below in this document)
- More robust procedures may assist the auditor in concluding in the current environment
- Changes to the auditor’s report may be more readily expected (depending on the nature and circumstances of the entity) in the form of:
  - “Material uncertainty related to going concern” paragraphs (in accordance with ISA 570 (Revised)), where appropriate
  - Modifications of the auditor’s opinion (i.e., qualified, adverse or disclaimers of opinion) where necessary
  - Enhanced or new key audit matters (where key audit matters are included in the auditor’s report)

Timely and effective communication between management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern during these uncertain times.

## Risk Assessment Procedures and Evaluating Management’s Assessment



*ISA 570 (Revised) requires the auditor, when performing risk assessment procedures as required by ISA 315 (Revised),<sup>2</sup> to consider whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern, and evaluate management’s assessment of the entity’s ability to continue as a going concern.<sup>3</sup>*

<sup>2</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>3</sup> ISA 570 (Revised), paragraphs 10 and 12

The COVID-19 pandemic is likely to have significant implications for global economies and markets for certain industries such as hospitality, retail and travel. The downturn will result in a significant increase in both the volume and severity of events and conditions that may in some instances cast doubt on an entity’s ability to continue as a going concern. However, this does not necessarily mean that a material uncertainty automatically exists—the increased risk of significant doubt on an entity’s ability to continue as a going concern will rather depend on the nature and circumstances of the entity, including the industry in which it operates.

Examples of events or conditions that may exist as a result of the COVID-19 pandemic include:

Event or Condition	Potential impact on management’s assessment of going concern	Potential matters for auditor consideration when evaluating management’s assessment
<p>Loss of a major market, key customer(s), revenue, labor shortages</p>	<p>The COVID-19 pandemic has prompted the introduction of public health measures in many countries, sometimes leading to the closure of ‘non-essential business’ or a change in the model of working whereby staff members are encouraged, or required in some instances, to work from home.</p> <p>Many businesses are likely to be adversely affected by this. For example, measures requiring the closure of non-essential stores will likely lead to lower sales if the business is unable to make up any shortfall through online sales.</p> <p>Demand, now and after the pandemic, is likely to change for some products and services. For example, business in the hospitality and travel industries may see a significant detrimental impact on revenues.</p>	<p>Has management considered the impact of:</p> <ul style="list-style-type: none"> <li>• Revenue losses</li> <li>• Plans to address any shortfalls</li> <li>• Supply chain and potential delivery issues (may impact ability to fulfill orders)</li> <li>• Impact of labor shortages to continue operating at planned capacity</li> <li>• Grants and other relief provided by governments (such as relief in the form of deferral of payments)</li> <li>• How long business disruption may continue to affect the entity once any restrictions have eased</li> </ul>
<p>Significant deterioration in the value of assets used to generate cash flows</p>	<p>Asset valuations, given the current uncertainty in both local and global markets, are likely to be more challenging.</p> <p>Valuations based on fair value, in particular, may be more challenging as values fluctuate more frequently and severely.</p> <p>Valuations based on projected future cash flows are also likely to be significantly more challenging, as developing robust models for cash flows into the future may be more difficult given current volatility and uncertainty.</p>	<ul style="list-style-type: none"> <li>• The reasonableness of assumptions used by management in their valuation calculations, including consistency of use across different calculations (where needed)</li> <li>• Whether there is known contradictory information in relation to an assumption used</li> <li>• If an expert has been used to assist in performing the valuation, how the expert has developed their assumptions</li> </ul>

Event or Condition	Potential impact on management’s assessment of going concern	Potential matters for auditor consideration when evaluating management’s assessment
		<ul style="list-style-type: none"> <li>If, and how, in the context of management’s assessment period, whether due consideration has been given to the current uncertainty present in both local and global markets, and related future prospects</li> </ul>
<p>Significant deterioration in the value of current assets - Inventory</p>	<p>Depending on the nature of the business, and the perishability of any inventories, disruption in the ability to carry on with business activities, including the closure of non-essential physical stores, may mean some entities will need to consider significant inventory write-downs.</p> <p>Any seasonal items of inventory may also require impairments if they cannot be sold or must be sold at reduced prices.</p>	<p>How management has considered:</p> <ul style="list-style-type: none"> <li>Possible write-downs or write-offs of inventory</li> <li>How business disruption may continue to affect the entity once any restrictions have eased (e.g., the continuation of reliable supply chains)</li> </ul>
<p>Delay in the launch of new products or services</p>	<p>Many businesses, as a result of reduced demand or availability of parts or components, have seen a need to delay the launch of new products or services.</p> <p>Where an entity’s going concern status may have been dependent on the imminent launch of a product or service, it’s delay may have a detrimental impact on the entity’s ability to continue as a going concern.</p>	<ul style="list-style-type: none"> <li>How management has taken into account the financial impact on the entity of the delay in launch, including other associated costs such as legal or other committed costs</li> </ul>
<p>Foreign exchange fluctuations</p>	<p>Foreign exchange rates have fluctuated significantly. Entities with significant international transactions may need to factor in unexpected losses (or gains) on foreign currency purchases, on sale contracts, receivables or debt denominated in foreign currencies, or on forward exchange or other derivative contracts.</p>	<ul style="list-style-type: none"> <li>How have foreign exchange fluctuations been taken into account, including the impact of any hedging arrangements to reduce uncertainty</li> <li>Whether sensitivity on movements in exchange rates has been taken into account</li> </ul>

Event or Condition	Potential impact on management’s assessment of going concern	Potential matters for auditor consideration when evaluating management’s assessment
Measurements affected by increased uncertainty	<p>Entities will need to determine whether, and the degree to which, future cash flows have been impacted by increased uncertainty (e.g., calculations based on fluctuating rates such as interest rates or foreign exchange rates), taking into account:</p> <ul style="list-style-type: none"> <li>• The unknown nature of the future</li> <li>• The duration of the COVID-19 pandemic</li> <li>• The timing of when the future cash flows may be expected</li> </ul>	<ul style="list-style-type: none"> <li>• In evaluating management’s assessment of the impact of future fluctuating rates and other relevant factors influencing future cash flows, the auditor may focus on: <ul style="list-style-type: none"> <li>○ The underlying assumptions, including the consistency of these with other areas of the audit</li> <li>○ The source used to determine the reasonableness of the assumptions</li> <li>○ Whether sensitivity has been considered with respect to movements in fluctuating rates</li> </ul> </li> </ul>
Counterparty credit risk	<p>Entities will need to determine whether there is significant counterparty credit risk, i.e., when the entity has significant financial assets and whether the counterparty intends, or is able to, honor the contract</p>	<ul style="list-style-type: none"> <li>• How management has assessed the recoverability of financial assets, including whether the assumptions used are reasonable and consistent with other information known to the auditor</li> </ul>
The entity’s solvency	<p>Government support is, at the moment, generally focused on providing short-term liquidity to businesses requiring support. Actions taken by entities now to maintain liquidity, such as deferral of payments or receipts of grants to offset costs, may potentially affect the entity’s longer-term solvency.</p>	<ul style="list-style-type: none"> <li>• How management has assessed the entity’s longer- term solvency, including communication management have had with their finance providers (e.g., banks and other lenders) regarding longer term solvency and covenants</li> <li>• How management has performed any ‘stress-testing’ that may help understand the solvency risks of the entity, and whether the assumptions used in the stress testing adequately reflect the possible circumstances</li> </ul>

Event or Condition	Potential impact on management’s assessment of going concern	Potential matters for auditor consideration when evaluating management’s assessment
		<ul style="list-style-type: none"> <li>• How the entity will be able to repay any additional loans taken</li> <li>• How the entity will meet previously deferred payments</li> <li>• How management has taken into account any regulatory guidance issued to alleviate the impact of the COVID-19 pandemic</li> </ul>



**Period Beyond Management’s Assessment**

*ISA 570 (Revised), paragraph 15, sets out that the auditor shall inquire of management as to its knowledge of events or conditions, beyond the period of management’s assessment, that may cast significant doubt on the entity’s ability to continue as a going concern.*

The period for which management’s assessment is required is set out in the applicable financial reporting standards or is determined by law and regulation if a longer period is required. ISA 570 (Revised) requires that the same period be used unless the period is less than 12 months, in which case the auditor is required to request that management extend its assessment to 12 months from the date of the financial statements.<sup>4</sup>

Though longer-term events or conditions, beyond the period of management’s assessment, may be more challenging to identify in the current circumstances, the COVID-19 pandemic is likely to impact many entities significantly, such as the longer-term disruption of supply chains. This may lead to short-term disruption (for example many businesses may be struggling to source supplies), but also a longer-term inability to process or fulfil orders if supply chains are slow to recover. Auditors may consider how management are seeking to resolve supply chains issues, what alternatives might exist and the timescale for any potential resolution.

**Additional Procedures When Events or Conditions are Identified**



*ISA 570 (Revised), paragraph 16, sets out that “if events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (hereinafter referred to as “material uncertainty”) through performing additional audit procedures, including consideration of mitigating factors.”*

<sup>4</sup> ISA 570 (Revised), paragraph 13

As it is likely that the COVID-19 pandemic will result in events and conditions that may cast significant doubt on an entity’s ability to continue as a going concern, it is also more likely that auditors may need to perform the additional procedures in accordance with ISA 570 (Revised), paragraph 16. In addition, the auditor may also wish to consider whether management has:

- Developed and implemented actions and processes so that they can continue to operate an effective control environment, in particular how key reporting and other significant controls have been addressed in changed circumstances.
- Considered how they will secure reliable and relevant information, on a continuing basis, in order to manage the future operations, including, for example, the flow of financial information from other parts of the business, e.g., branches and divisions.

Paragraph A16 of ISA 570 (Revised) also includes some further examples of audit procedures that may be relevant to the requirement in paragraph 16 in the circumstances.

Auditor’s Additional Procedures—Paragraph 16 Requirement	Auditor’s Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
<p>Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management’s plans for future action:</p> <ul style="list-style-type: none"> <li>(i) Evaluate the reliability of the underlying data generated to prepare the forecast; and</li> <li>(ii) Determine whether there is adequate support for the assumptions underlying the forecast.</li> </ul>	<p>Analyzing and discussing cash flow, profit and other relevant forecasts with management.</p>	<ul style="list-style-type: none"> <li>• Previously prepared budgets and forecasts may be of less relevance because of the rapidly changing economic environment and may require significant revision by management before being considered by the auditor.</li> <li>• Given how uncertain and volatile global markets are, forward looking forecasts are likely to be more difficult to make, and therefore audit. Accordingly, areas of focus could include:                         <ul style="list-style-type: none"> <li>○ Any assumptions used, and if they are reasonable given the current circumstances. For example, lenders giving new or extended credit facilities may incur additional charges for highly exposed industries or exchange fluctuations on foreign denominated debt may severely impact future cash flow forecasts.</li> <li>○ The consistency of the same assumptions used by the entity for different purposes.</li> <li>○ How any sensitivity analysis that has been performed has been used to substantiate the assumptions applied, or if different scenarios have been</li> </ul> </li> </ul>

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
		<p>prepared to reflect the rapid changes in the environment, how this has impacted management's assessment.</p> <ul style="list-style-type: none"> <li>○ Contractual arrangements that have been modified may impact future cash flow forecasts.</li> <li>○ Changes needed to expected taxes because of changes to tax rates or tax laws (e.g., some jurisdictions may have implemented support measures through adjustments in the tax system).</li> </ul> <p>Regular updates to management's assessment and the auditor's evaluation may be required given the evolving nature of the outbreak.</p>
<p>Evaluate management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.</p>	<p>Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.</p>	<p>Globally, governments have announced packages of measures to support business, often focused on providing liquidity to cover business costs. For example, in some countries, grants have been provided to pay a certain amount of salary costs for an interim period. In some jurisdictions, governments have also acted to encourage the banking sector to provide emergency loans to businesses in need (in particular in relation to smaller businesses) and to be more flexible regarding breaches of covenants.</p> <p>In evaluating management's assessment of going concern of an entity, auditors may consider, for example, the extent to which an entity is relying on such support (if available) and whether it is sufficient to cover any short term liquidity issues, as well as if the conditions attached to any support are likely to be met by the entity.</p> <p>Auditors' may also consider:</p> <ul style="list-style-type: none"> <li>• Reviewing recent correspondence with debt issuers to obtain an understanding of the likelihood of continued support.</li> <li>• The feasibility and impact of any restructuring plans to cut operating costs.</li> </ul>

Auditor's Additional Procedures—Paragraph 16 Requirement	Auditor's Procedures—Relevant Paragraph A16 Example	Auditor Focus in the Current Circumstances
		<ul style="list-style-type: none"> <li>The ability to pay when costs that have been deferred come due.</li> </ul>
	<p>Reading the terms of debentures and loan agreements and determining whether any have been breached.</p>	<p>As the financial impact of the COVID-19 pandemic is likely to be significant to some entities, it is important that the auditor considers the impact of weakened credit ratings and whether any covenants have been breached, or could be breached, and how management intends to resolve the matter with the debt issuer.</p> <p>For example, breaches may arise as a result of temporary changes in the entity's reported earnings, suspension of business or other material adverse event clauses, or as a result of unavoidable delays in providing debt issuers with audited financial statements, covenant compliance certificates, or third-party valuations.</p> <p>Another consideration is in relation to measures taken in some jurisdictions with regard to debt covenants. For example, in some jurisdictions, prudential regulators have appealed to debt providers to consider carefully their responses to potential breaches of covenants arising directly from the COVID-19 pandemic and its consequences, including not to impose new charges or restrictions on customers in certain circumstances.</p>
	<p>Confirming the existence, terms and adequacy of borrowing facilities.</p>	<p>Some entities may need to rely more on borrowing or credit facilities as the COVID-19 pandemic impacts them financially in the near to medium term.</p> <p>Therefore, the auditor's consideration of the existence of both short-term liquidity and longer-term solvency arrangements with lenders is also an important factor in supporting the auditor's conclusion regarding going concern.</p>

## Implications for the Auditor’s Report

*ISA 570 (Revised), paragraphs 17 and 18 require auditors to:*



- *Evaluate whether sufficient appropriate audit evidence has been obtained regarding, and to conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.*
- *Based on the evidence obtained, conclude whether, in their judgment, a material uncertainty exists relating to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.*

*While the impact of the COVID-19 pandemic may amplify events or conditions giving rise to modifications to the auditor’s report or opinion, it does not in itself mean a modification is inevitable—this will depend on the facts and circumstances of each entity.*

### ***Disclosures Related to Going Concern***

The applicable financial reporting framework sets out the specific disclosure requirements related to the going concern of the entity, including significant judgments and assumptions. Specific disclosures are ordinarily required when management concludes that there is significant doubt as to the entity’s ability to continue to as a going concern (for example for a period of 12 months from the date of the financial statements). In addition, other disclosures regarding risks may also be required, such as how management is managing its liquidity and credit risks.

In the current circumstances, given the uncertainty about the immediate outlook for many entities, more audited financial statements will likely include expanded disclosures about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

There may also be circumstances where financial statements prepared in accordance with a fair presentation framework may require additional disclosures to achieve fair presentation. For example, in evaluating the fair presentation of the financial statements, and depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation

notwithstanding that there are no explicit requirements for such disclosure by the applicable financial reporting framework.

**ISA 570 (Revised), paragraphs 19 and 20, require the auditor to determine whether the financial statements provide adequate disclosure about the identified events or conditions related to going concern and, as applicable, management’s plans in this regard.**

The required level of disclosure will depend on the facts and circumstances of each entity – not all entities are affected by the current evolving environment to the same extent or in the same manner. The auditor uses professional judgment in determining the adequacy of the disclosures and the implications of inadequate disclosures on the auditor’s opinion or within the auditor’s report.

**Implications on the Auditor’s Report**

The potential implications for the auditors’ report, based on the auditor’s judgment in light of the facts and circumstances should concerns about going concern be identified, are summarized in the table below:

The Appendix to ISA 570 (Revised) provides illustrative examples of Auditor’s Reports Relating to Going Concern

Auditor’s Conclusion (in the Auditor’s Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor’s Report <sup>5</sup>	ISA 570 (Revised) Reference
<ul style="list-style-type: none"> <li>Financial statements have been appropriately prepared on a going concern basis</li> <li>A material uncertainty has been identified</li> <li>Appropriate disclosures have been made</li> </ul>	<ul style="list-style-type: none"> <li>An unmodified opinion is expressed</li> <li>A separate section is included under the heading “<b>Material Uncertainty Related to Going Concern,</b>” which also draws attention to the relevant disclosures within the financial statements</li> </ul>	Paragraph 22
<ul style="list-style-type: none"> <li>Financial statements have been appropriately prepared on a going concern basis</li> <li>A material uncertainty has been identified</li> <li>Appropriate disclosures have NOT been made</li> </ul>	<ul style="list-style-type: none"> <li>A <b>qualified</b> or <b>adverse</b> opinion is expressed, as appropriate in accordance with ISA 705 (Revised)<sup>6</sup></li> <li>State in the “<b>Basis for Qualified (Adverse) Opinion</b>” section of the report that a material uncertainty exists that may cast a significant doubt on the entity’s ability to continue as a going concern and that the matter is not appropriately disclosed in the entity’s financial statements</li> </ul>	Paragraph 23

<sup>5</sup> Examples of auditor’s reports in various circumstances where relevant going concern issues have been concluded on are presented in the Appendix to ISA 570 (Revised).

<sup>6</sup> ISA 705 (Revised), *Modification to the Opinion in the Independent Auditor’s Report*

Auditor’s Conclusion (in the Auditor’s Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor’s Report <sup>5</sup>	ISA 570 (Revised) Reference
<ul style="list-style-type: none"> <li>Financial statements have been prepared on a going concern basis</li> <li>The use of the going concern basis of accounting is inappropriate</li> </ul>	<p>An <b>adverse</b> opinion is expressed</p>	<p>Paragraph 21</p>
<ul style="list-style-type: none"> <li>The entity is not a going concern</li> <li>The financial statements have been appropriately prepared on a basis other than going concern</li> <li>The alternative basis of accounting is appropriate in the circumstances</li> </ul>	<ul style="list-style-type: none"> <li>An <b>unmodified opinion</b> may be able to be expressed if there is adequate disclosure about the basis of accounting on which the financial statements are prepared</li> <li>It may be considered appropriate to include an emphasis of matter paragraph in accordance with ISA 706 (Revised)<sup>7</sup> drawing the user’s attention to the alternative basis of accounting and the reasons for its use</li> </ul>	<p>Paragraph A27</p>

In considering the implications on the auditor’s report, the auditor also considers whether sufficient appropriate audit evidence has been obtained to be able to conclude on management’s assessment of going concern. If the auditor is unable to obtain sufficient appropriate audit evidence in the current environment, the auditor determines the effect on the auditor’s report in accordance with ISA 705 (Revised). For example, having greater difficulty in obtaining evidence regarding future forecasts may lead to a limitation of scope. Auditor reporting is addressed more generally in a separate Staff Alert: *Auditor Reporting in the Current Evolving Environment—Audit Considerations Due to the Impact of COVID-19*.<sup>8</sup>

**Key Audit Matters**

Key audit matters are included in the auditor’s report in accordance with ISA 701<sup>9</sup> to focus on those matters that, in the auditor’s professional judgment, were of most significance in the audit of financial statements of the current period.

A matter giving rise to a material uncertainty related to going concern is by its nature a key audit matter as contemplated in ISA 701.<sup>10</sup> In the current environment it is also likely that for some entities significant auditor judgments will be needed with regard to the auditor’s conclusions on management’s use of the going concern basis of accounting, which may therefore be determined to be a key audit matter.

Communicating key audit matters is not a substitute for reporting in accordance with ISA 570 (Revised) when a material uncertainty related to going concern exists, as described above. ISA 701, paragraph 15, explains that matters giving rise to a modified opinion in accordance with ISA 705 (Revised) or a material

<sup>7</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*  
<sup>8</sup> To be published early May 2020  
<sup>9</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*  
<sup>10</sup> ISA 701, paragraph 15

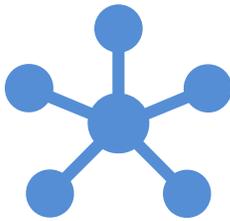
uncertainty related to going concern in accordance with ISA 570 (Revised), shall not be described in the Key Audit Matters section of the auditor's report. Rather, the auditor shall report on these matters as required by ISA 705 (Revised) or ISA 570 (Revised), respectively, and include in the Key Audit Matters section a reference to the relevant sections included in the auditor's report in accordance with these ISAs.



### **Communication with Those Charged with Governance**

ISA 570 (Revised), paragraph 25, sets out the requirements for communication with those charged with governance when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. The required communication includes whether the events or conditions constitute a material uncertainty, the appropriateness of management's use of the going concern basis, the adequacy of the related disclosures in the financial statements and the implications for the auditor's report, where applicable.

Regular and effective communications with those charged with governance is likely to be even more important in the current environment. The impact of the COVID-19 pandemic on entities is rapidly changing. Events are occurring at such a pace that considerations made may no longer be valid even a short time after they have been factored into either management's or the auditor's, assessments. The auditor should consider how he or she plans to communicate with those charged with governance in a timely manner, with regard to both reporting and other matters required to be communicated.



### **Potential Impact on the Auditor's Considerations in Relation to Other Information in Accordance with ISA 720 (Revised)<sup>11</sup>**

Some jurisdictions may require additional reporting within the 'Other Information' in the annual report. For example, in some jurisdictions, management may need to comment on an entity's long-term viability or strategy.

The auditor's responsibilities relating to Other Information are contained within ISA 720 (Revised) including when matters are disclosed in the 'Other Information' related to an entity's going concern or viability or strategy. While reading the other information the auditor is required to, among other matters:

- Consider whether there is a material inconsistency between the Other Information and the financial statements. As the basis for this consideration, the auditor shall compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and
- Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

ISA 720 (Revised), paragraphs 16 to 19, explains the auditor's response, including setting out appropriate actions, if a material inconsistency is identified or when the auditor concludes that a material misstatement of the other information exists.

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<sup>11</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

## Significant Delays in the Approval of Financial Statements



ISA 570 (Revised), paragraph 26, requires that if there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16 of ISA 570 (Revised), as well as consider the effect on the auditor’s conclusion regarding the existence of a material uncertainty, as described in paragraph 18 of ISA 570 (Revised).

The COVID-19 pandemic may be a contributing factor to a delay in the approval of financial statements, with some jurisdictions already allowing extensions to filing deadlines. If a significant delay occurs, auditors should consider the ISA 570 (Revised) requirements described above and ensure that communication with management and those charged with governance remains open and effective, allowing both auditors and those charged with governance to fulfil their respective responsibilities despite the significant delay in approval of the financial statements.

### Documentation



ISA 230<sup>12</sup>, paragraph 8, requires the auditor to document the nature, timing and extent of the audit procedures performed, the results of the audit procedures performed, and the audit evidence obtained, as well as significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Accordingly, it is expected that the auditor’s procedures with regard to going concern would be documented to explain how the auditor’s conclusions have been determined, and which would form the basis for the auditor’s report, including any modifications to the opinion or other changes needed to the auditor’s report.



<sup>12</sup> ISA 230, *Audit Documentation*

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