Compendium of Auditing Guidance Issued by Auditing and Assurance Standards Board on Various Aspects amid COVID-19
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The Institute of Chartered Accountants of India
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The global pandemic COVID-19 has significantly impacted global trade and economy with consequential impact on global and Indian financial markets. The uncertainty arises primarily from interruptions in production, supply chain disruptions, unavailability of personnel, closure of facilities / offices due to the rapid outbreak of COVID-19, decline in demand, liquidity, business continuity issues, etc. Entities being audited are adjusting to the changing environment relating to their businesses and operations, including financial reporting processes, disclosures in financial statements and their ability to maintain operations in the foreseeable future.

Due to increasing restrictions on travel, meetings, access to client locations, auditors are facing practical difficulties in carrying out audits and in discharging their professional responsibilities. These situations, however, must not undermine the delivery of high quality audits.

For helping the members in conducting audits in current scenario, the Institute of Chartered Accountants of India (ICAI) through its Auditing and Assurance Standards Board (AASB) has issued guidance on various aspects relating to auditing covering aspects such as going concern, physical inventory verification, auditor's reporting and subsequent events. AASB has also issued an Auditing Advisory on COVID-19. I am happy to note that AASB has brought out this “Compendium of Auditing Guidance Issued by Auditing and Assurance Standards Board on Various Aspects amid COVID-19”. The Compendium brings together various auditing guidance on COVID-19 issued by AASB till date at one place for easy reference of members.

My appreciation for CA. G. Sekar, Chairman, AASB, CA. (Dr.) Debashis Mitra, Vice-Chairman, AASB and all members of the Auditing and Assurance Standards Board for bringing out this Compendium for the benefit of members and other stakeholders at large.

I am sure that the members would find this Compendium immensely useful.

June 24, 2020
New Delhi

CA. Atul Kumar Gupta
President, ICAI
The COVID-19 outbreak has brought various challenges to the auditing profession since due to lockdown, travel restrictions, etc. auditors are facing difficulties in conducting Audit. To provide guidance to the members in current scenario, the Auditing and Assurance Standards Board (AASB) of ICAI has issued Auditing Guidance on various aspects. These include Auditing Advisory on COVID-19, Guidance on Going Concern, Guidance on Physical Inventory Verification, Guidance on Auditor’s Reporting and Guidance on Subsequent Events.

AASB is pleased to publish this “Compendium of Auditing Guidance Issued by Auditing and Assurance Standards Board on Various Aspects amid COVID-19” which contains all the aforesaid Auditing Guidance. This Compendium has been brought out to serve as a one stop source of reference of auditing guidance relating to COVID-19 outbreak.

We wish to express our sincere thanks to CA. Atul Kumar Gupta, Hon’ble President, ICAI and CA. Nihar Niranjan Jambusaria, Hon’ble Vice-President, ICAI for providing us the opportunity to develop aforesaid Auditing Guidance for the benefit of the members.

We express our gratitude to all the Board members for their valuable suggestions in finalization of these guidance. We sincerely appreciate the efforts made by CA. Megha Saxena, Secretary, AASB and other staff of AASB for their contribution in preparing this Compendium.

We are confident that the Members would find this Compendium very useful.

**CA. (Dr.) Debashis Mitra**  
Vice Chairman  
Auditing and Assurance Standards Board

**CA. G. Sekar**  
Chairman  
Auditing and Assurance Standards Board
Disclaimer

This guidance has been prepared to highlight key areas of focus in the current environment in India, while conducting an audit in accordance with the Standards on Auditing (SAs). This guidance does not amend or override the SAs. Reading this guidance is not a substitute for reading the SAs. Preparers, those charged with governance and users of financial statements may also find this guidance helpful in understanding the auditor’s responsibilities in relation to various aspects.
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Impact of Novel Corona Virus (COVID-19) on Audit of Financial Statements for the Financial Year ending March 31, 2020

Background

The global pandemic COVID-19 has already had a significant impact on global trade and economy with consequential impact on global and Indian financial markets. This may also have accounting, disclosure, internal control and auditing implications for many entities. There is a great deal of uncertainty as to how the COVID-19 situation will continue to evolve and the scenario is rapidly changing. The uncertainty arises primarily from interruptions in production, supply chain disruptions, unavailability of personnel, closure of facilities / offices due to the rapid outbreak of COVID-19, decline in demand, liquidity, business continuity issues, etc. The resultant outbreak though started outside of India impacts entities in India as well.

Given there are increasing restrictions on travel, meetings and access to client locations, auditors would be facing practical difficulties in carrying out audits. These underlying situations, however, must not undermine the delivery of high quality audits. Audits should continue to be planned and performed in compliance with the auditing standards. To enable the auditors to perform audits additional time may be required and alternate audit procedures may need to be performed in order to obtain sufficient appropriate audit evidence.

This document discusses key Advisory to auditors related to conditions that may arise as a result of COVID-19. Auditors must carefully evaluate unique circumstances prevailing in their audits and assess risk accordingly when applying the concepts in this Advisory in their audits.
Principles of Specific Standards on Auditing used in this Advisory

Areas which require special attention of auditors in current scenario are cited below along with reference of relevant Standards on Auditing (SAs):

1. Identifying and Assessing the Risk of Material Misstatements and Materiality in Planning and Performing an Audit (SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment & SA 320, Materiality in Planning and Performing an Audit)


3. Valuation of Inventory on a date other than date of financial statements i.e. 31st March 2020 (SA 501, Audit Evidence - Specific Considerations for Selected Items)

4. Audit of Consolidated Financial Statements where Components/component auditors are located in severely affected places (SA 600, Using the Work of Another Auditor)

5. Subsequent Events or Events after Reporting date (SA 560, Subsequent Events)

6. Going Concern [SA 570(Revised), Going Concern]

7. Evaluation of Work of Management’s Expert (SA 500, Audit Evidence)

8. Written Representations (SA 580, Written Representations)


10. Reporting on Key Audit Matters (SA 701, Communicating Key Audit Matters in the Independent Auditor’s Report)

11. The Auditor’s Responsibilities Relating to Other Information [SA 720(Revised)]

12. Internal Control Considerations

13. External Confirmations (SA 505, External Confirmations)

1. **Identifying and Assessing the Risk of Material Misstatements and Materiality in Planning and Performing an Audit**

The outbreak of COVID-19 can have a number of potential issues for entities, particularly entities that operate in geographies that are significantly exposed to the outbreak. In addition there could also be impact on those entities whose vendors/bankers/suppliers/service providers are in geographies that are exposed. There is already a broader economic impact of the outbreak on global and Indian financial markets and the outbreak will also pose increasing risks and potentially have accounting implications for all entities with exposure to broader economic downturn and decline in financial markets.

Due to the above conditions, entities and auditors would have to evaluate additional risks arising from the following areas:

a. Operational disruption resulting in any changes to the business model arising from significant drop in demand, reduced customer base, disruption in supply chain, employee’s absence or work from home, geographical implications of group operations, public lock down etc.

b. Contractual non-compliance resulting in contractual breaches, additional security requirements or stressed asset valuations.

c. Liquidity and working capital issues given the reduced/impaired ability to service debt or replenish working capital requirements due to possible lower cash flows.

d. Asset valuations – downward asset valuations may trigger legal and compliance issues or lead to liquidity challenge.

In applying SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment, the auditor should consider the implications of the above matters when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks.
The auditor should also discuss with TCWG and management whether the impact of the COVID-19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the emerging business risks. The auditor should also consider if disclosures are required in the financial statements about the key assumptions made in reaching this conclusion. If the auditor has revised the risk assessment as a result, audit materiality may also need to be revised as the audit progresses. Reference may be made to SA 320 - Materiality in Planning and Performing an Audit. Paragraphs 12 and 13 of SA 320 are reproduced below:

“Revision as the Audit Progresses

12. The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. (Ref: Para. A13)

13. If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.”
2. **Assessing Financial Impact and their Reasonable Estimation**

The financial statements have various items which would have been affected by the outbreak of COVID-19, a detailed list of them has been mentioned in the Accounting Advisory.

In addition to the detailed list of items of financial statements mentioned in the aforesaid Advisory, specific accounting issues could arise in the following areas:


b. Valuation of defined benefit plans and obligations – due to significant changes in employee strength or de-valuation of underlying plan assets.

c. Stock compensation performance conditions and obligations.

d. Contractual penalties.

e. Employment termination benefits.

f. Insurance recoveries related to business interruptions.

 g. Onerous contract provisions.

h. Allowance for expected credit losses.

The above items are likely to have significant accounting estimates to be made by the management. Significant assumptions including projected cash flows, used in these accounting estimates may be affected by the impact of COVID-19. Hence, the auditor should use procedures as prescribed by SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures to check whether (a) the accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable; and (b) related disclosures in the financial statements are adequate.

The above procedures include how management has assessed the effect of estimation uncertainty or the risk assessment and audit evidence supporting these accounting estimates and related disclosures that may be affected by the impact of COVID-19 on the business of the entity and the economic environment.
3. Valuation of Inventory on a date other than date of financial statements i.e. 31st March 2020

Due to government-imposed shutdowns or due to unavailability of the client personnel, it may not be practicable for most of the business entities to conduct physical verification of inventory as on the date of the financial statements i.e. 31st March, 2020. The auditor must plan procedures depending on the underlying circumstances wherein the inventory count date could be advanced prior to the year-end or deferred to a date after the year-end.

The auditor would need to comply with the procedures given in Paragraphs 5 and 7 read with Paragraphs A9 to A14 of SA 501 cited below:

“5. If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall, in addition to the procedures required by paragraph 4, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded. (Ref: Para. A9-A11)

Physical Inventory Counting Conducted Other than At the Date of the Financial Statements (Ref: Para. 5)

A9. For practical reasons, the physical inventory counting may be conducted at a date, or dates, other than the date of the financial statements. This may be done irrespective of whether management determines inventory quantities by an annual physical inventory counting or maintains a perpetual inventory system. In either case, the effectiveness of the design, implementation and maintenance of controls over changes in inventory determines whether the conduct of physical inventory counting at a date, or dates, other than the date of the financial statements is appropriate for audit purposes. SA 330 establishes requirements and provides guidance on substantive procedures performed at an interim date.

A10. Where a perpetual inventory system is maintained, management may perform physical counts or other tests to ascertain the reliability of inventory quantity information included in the entity’s perpetual inventory records. In some cases, management or the auditor may identify differences between the perpetual inventory records and actual physical inventory quantities on hand; this may indicate that the controls over changes in inventory are not operating effectively.
A11. Relevant matters for consideration when designing audit procedures to obtain audit evidence about whether changes in inventory amounts between the count date, or dates, and the final inventory records are properly recorded include:

- Whether the perpetual inventory records are properly adjusted.
- Reliability of the entity’s perpetual inventory records.
- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records.

7. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor’s report in accordance with SA 705(Revised). (Ref: Para. A12-A14)

**Attendance at Physical Inventory Counting Is Impracticable (Ref: Para. 7)**

A12. In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

A13. In some cases where attendance is impracticable, alternative audit procedures, for example inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

A14. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, SA 705(Revised) requires the auditor to modify the opinion in the auditor’s report as a result of the scope limitation.”
4. **Audit of Consolidated Financial Statements where Components/Component auditors are located in severely affected places**

As per the Accounting Advisory, the following must be followed by the management in preparation of financial statements:

“Entities to whom Ind AS is applicable

**Ind AS 110 Consolidated Financial Statements**

*Ind AS 110 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than three months.*

Entities to whom Ind AS is not applicable

**AS 21 Consolidated Financial Statements (revised 2016)**

*AS 21 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than six months.”*

In either of the above instances, if the financial information/financial statements of the components are unavailable, for the year ended March 31, 2020, the maximum difference between the reporting dates cannot exceed the above limits.

**The Roles and Responsibilities of the Auditor with regards to Consolidated Financial Statements are as follows:**

(a) Paragraph 49 of Guidance Note on Audit of Consolidated Financial Statements, issued by ICAI states as under:

“49. *In a case where the parent’s auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should consider the requirements of SA 600.*”

(b) As per SA 600, Using the Work of Another Auditor the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor’s purposes, in the context of the specific assignment and also should consider the significant
findings of the other auditor. While doing so, the principal auditor should consider how the impact of COVID-19 including travel bans, temporary suspension of business operations, government mandated leaves, etc., may affect risk assessments, materiality and the ability to obtain sufficient appropriate audit evidence in respect of components. If principal auditor is unable to obtain adequate information or reporting from the component auditors, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit. (Refer Paragraph 22 of SA 600)

(c) In the current scenario, the alternative means or methods to obtain sufficient appropriate audit evidence by the principal auditor from component auditor are as follows:

- Can data be shared cross-border, to allow for principal auditor for review? Could files be loaded into a cloud-based portal and a login provided to the principal auditor? Local laws may restrict cross-border data sharing. If in doubt, advice should be sought on any local legal restrictions.

- Can video calls and/or screen sharing software be used to discuss the work with the component auditor?

- Can the component auditor be asked to complete a detailed questionnaire or clearance on the work they have performed?

- Consider the outcome of any prior visits, including visits during planning or at an interim stage

- What work of component auditor was previously reviewed?

- Consider the past work of the component auditor – have there been significant errors or issues, or has work been performed to a high standard?

- Can a more detailed memorandum be provided to the component auditor on what work should be done for purpose of group reporting?

- What work can be done centrally by the Principal auditor’s team?

  If finance systems are integrated, data may be accessible for review by Principal Auditor. Management may be able to provide information directly to the Principal auditor to allow for testing.

  Each individual engagement will need to be assessed on a case by case basis to determine what may be appropriate.
5. Subsequent Events or Events after Reporting date

As per the Accounting Advisory, the following needs to be considered by the management in the preparation of financial statements:

“According to Ind AS 10, events occurring after the reporting period are categorised into two viz. (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and (ii) Non-adjusting events i.e. those do not require adjustments to the amounts recognised in its financial statements for the reporting period. In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Similarly, in accordance with AS 4, Contingencies and Events Occurring After Balance Sheet Date, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID-19 in measuring various assets and liabilities. They should also disclose how they have dealt with the impact of COVID-19 on the financial position and financial performance of the entity.”

The Responsibilities of the auditor for the subsequent events i.e. events between the date of financial statements and the date of auditor’s report as per SA 560 are as follows:

“Events Occurring Between the Date of the Financial Statements and the Date of the Auditor’s Report

6. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the
financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Ref: Para. A6)

7. The auditor shall perform the procedures required by paragraph 6 so that they cover the period from the date of the financial statements to the date of the auditor’s report, or as near as practicable thereto. The auditor shall take into account the auditor’s risk assessment in determining the nature and extent of such audit procedures, which shall include the following: (Ref: Para. A7-A8)

a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. (Ref: Para. A9)

c) Reading minutes, if any, of the meetings, of the entity’s owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)

d) Reading the entity’s latest subsequent interim financial statements, if any.

8. When, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.”
6. **Going Concern**

COVID-19 is resulting in significant operational disruption and presents an existential threat for many businesses. Entities and audit teams need to consider the implications on the assessment of going concern and viability in the financial report and whether these circumstances will result in prolonged operational disruption which will significantly erode the financial position of the entity or otherwise result in failure.

This is critically important for the going concern assessment. Auditors will need to consider whether the threat to liquidity as a result of supply/demand disruption presents a material uncertainty to the going concern status for the 12 months look forward period. SA 570(Revised) also requires auditors to consider events that may cast significant doubt on the entity’s ability to continue as a going concern beyond the period of management’s assessment.

Audit teams should robustly assess the going concern and viability risks relating to COVID-19 threat in compliance with SA 570(Revised). This includes evaluating whether there is adequate support for the assumptions underlying management's assessment and the consistency of these assumptions across the entity’s business activities.

As per paragraph 5 of SA 570(Revised), Going Concern

*The Management’s assessment of the entity’s ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:*

- *The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.*

- *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 affect the judgment regarding the outcome of events or conditions.*
Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

The auditor's responsibilities relating to going concern are mentioned in Paragraphs 6 & 7 of SA 570(Revised), Going Concern which are cited below:

**“Responsibilities of the Auditor”**

6. The auditor’s responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity’s ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern.

7. However, as described in SA 200, the potential effects of inherent limitations on the auditor’s ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity’s ability to continue as a going concern in an auditor’s report cannot be viewed as a guarantee as to the entity’s ability to continue as a going concern.”

There could be several situations arising from the ongoing COVID-19 outbreak that could have an impact on the assumption relating to going concern. For some entities, the impact could be severe and may leave management with no realistic alternative but to liquidate or cease operations. There could also be entities which may have to scale down their operations while impact may not be significant for other entities.

It is the responsibility of management to make the assessment as to whether the entity is a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the
financial statements are authorised for issue. The assessment will be specific to the entity’s circumstances.

In the current scenario, while making this assessment, management would generally be expected to prepare detailed forecasts which, will require regular updation till the financial statements are authorised for issue. These forecasts should capture potential scenarios and management’s plans.

Management should consider the impact of COVID-19 on customers, suppliers and employees. For example, could the entity continue to operate if employees are not able to physically present, and how reduced cash flows impact its working capital requirements. Management should also consider whether the insurance policies taken by the entity cover the losses arising from the COVID-19.

The auditor will only be able to form a conclusion relating to going concern once management has made its own assessment. The auditor should inquire of management and TCWG as to what information is available about the future, and determine whether this has been appropriately considered as part of management’s assessment. The auditor should apply similar considerations to those of management, as discussed above, in assessing the appropriateness of the going concern assumption. This should, for example, include a detailed and robust review of up to date forecasts, cash flows, sensitivity analyses and reviews of COVID-19 contingency plans and impact assessments conducted by the management.

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.

Given the level of uncertainty and speed of increasing impact of COVID-19, audit teams need to critically consider the current position at the point of sign off as part of the subsequent events review right up to the point of signing the auditor’s report, and may need further evidence and information by management, including updating financial models.

If the entity is disclosing in their subsequent events disclosures that an estimate of impact cannot be made due to the evolving situation, this may result in a material uncertainty on going concern within the audit report.
7. Evaluation of Work of Management’s Expert

Since, lot of estimation is involved regarding the impact on the financial statements and assessment of going concern in the current circumstances, management may take the assistance of a management’s expert (an expert in field other than accounting and auditing) to make such estimates or assessments.

As per paragraph 8 of SA 500—Audit Evidence,

“When information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes,: (Ref: Para. A34- A36)

a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37-A43)

b) Obtain an understanding of the work of that expert; and (Ref: Para. A44-A47)

c) Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion. (Ref: Para. A48)”
8. Written Representations

As per SA 580, the auditor should obtain written representations from the management regarding the various estimates and assessments made by the management. The written representations should be exhaustive, containing the occurrence, method of measurement, completeness of transactions recorded and the disclosure of financial impacts in the financial statements. Auditors need to assess whether any specific representations may be required to be obtained from the Management in relation to Managements’ assessment of impact from the ongoing outbreak of COVID-19 on the financial statements for the year ending March 31, 2020 as well as for the reasonable foreseeable future.
9. Auditor’s Opinion

The overall objectives of an auditor as per SA 200—Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing, are as follows:

a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor’s findings.

Auditor should form an opinion on the financial statements considering the principles enunciated in SA 700(Revised), SA 705(Revised), SA 706 (Revised). Since in the current scenario there are high probabilities of going concern being affected, existence of material uncertainties relating to going concern, the principles enunciated in SA 570(Revised) also need to be considered particularly paragraphs 21 to 24 which prescribe manner of reporting in different situations. The auditor needs to carefully assess the situation applying professional judgement and professional skepticism and report accordingly.

Some illustrative Situations where the Auditor may need to express a modified opinion due to COVID-19 are cited below:

<table>
<thead>
<tr>
<th>i. The auditor is unable to obtain sufficient appropriate audit evidence relating to material component audited by the other auditor as per SA 600 due to COVID-19 pandemic.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ii. The financial impact arising out of the COVID-19 outbreak are not accounted or reported or disclosed as per the prescribed Accounting Standards, in the financial statements.</td>
</tr>
<tr>
<td>iii. If the auditor is unable to obtain sufficient appropriate audit evidence relating to the impact of COVID-19 in the financial statements and is of opinion that there are misstatements that are material to the financial statements.</td>
</tr>
<tr>
<td>iv. The auditor has communicated misstatements to the management and those charged with governance relating to COVID-19 as per SA 450, Evaluation of Misstatements Identified During the Audit and the management or TCWG refuses to correct such misstatements, that are individually or in aggregate, material to the financial statements.</td>
</tr>
</tbody>
</table>
10. Reporting on Key Audit Matters

SA 701 – Communicating Key Audit Matters in the Independent Auditor’s Report deals with the auditor’s responsibility to communicate key audit matters in the auditor’s report. Key audit matters are those matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from the matters communicated with those charged with governance.

The auditor would need to comply with the procedures given in Paragraph 9 (read with Paragraphs A18 to A26) of SA 701 cited below:

“9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18)

a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315. (Ref: Para. A19–A22)

b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty. (Ref: Para. A23–A24)

c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)”

The auditor should evaluate whether the impact of the disruption caused because of COVID-19 to the operations of the entity, consequential impact on the financial statements would be a key audit matter and if determined so, the auditor would need to report the same along with how the matter was addressed in the audit.
11. The Auditor’s Responsibilities Relating to Other Information (SA 720(Revised))

This SA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.

Entities would need to provide additional disclosure as part of the financial statements/annual report w.r.t. the following areas:-

a. Risk assessment – Entities may elaborate on existing reported risks w.r.t. calamities or add new ones relating to COVID-19.

b. Management discussion and analysis – Entities may include management’s discussion and analysis of any material current and potential future impact on their operations, financial condition and liquidity arising out of the entity's exposure to COVID-19 risks.

c. Notes to the financial statements – Specific disclosures under the subsequent events accounting standards and any other specific account specific disclosures.

The auditor is required to read any other information disclosed in the annual report and consider whether the same is consistent with the financial statements and the auditor's knowledge obtained in the audit.
12. **Internal Control Considerations**

In case of companies, where the auditors have to issue a Report on the Internal Financial Controls over Financial reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013, because of the impact of COVID-19, there could be additional considerations that need to be considered as below:

a. Companies may need to implement new internal controls or modify existing internal controls over financial reporting.

b. Evaluate whether any of the controls is not operating effectively on account of absence of concerned person due to illness/quarantine/ working from home/isolation/travel inaccessibility.

c. Identify alternate controls.

d. Company’s ability to close financial reporting process in time.

e. Company’s ability to design and implement controls related to selection and application of Generally Accepted Accounting Principles (GAAP) for accounting and disclosure issues arising from COVID-19.
13. **External Confirmations**

SA 330, *The Auditor’s Responses to Assessed Risks* requires that the auditor obtain more persuasive audit evidence the higher the auditor’s assessment of risk. To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. SA 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.

SA 240 indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement, whether due to fraud at the assertion level.

SA 500 indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from the representations made by the management.

SA 505, *External Confirmations* provides guidance regarding the process of seeking external confirmations and evaluating the results of the process. Due to the impact of COVID-19 it is more likely that this key audit procedure which provides significant independent audit evidence may be ineffective due to the inadequate responses or non-responses to the confirmation request sent out.

**Results of the External Confirmation Procedures**

*Reliability of Responses to Confirmation Requests*

If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. (Ref: Paragraphs 11-12 of SA 505 reproduced below)

11. **If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.** (Ref: Para A17)
Non-Responses

12. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: Para A18-A19 below)

A18. Examples of alternative audit procedures the auditor may perform include:

- For accounts receivable balances – examining specific subsequent cash receipts, shipping documentation, and sales near the period-end.

- For accounts payable balances – examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

A19. The nature and extent of alternative audit procedures are affected by the account and assertion in question. A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with SA 315. For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with SA 240.
14. Risk of Fraud

Paragraph 5 of SA 240 states that “An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.”

As stated in Paragraph 12 of SA 240 “the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

The impact of COVID-19 on businesses could be very significant and could put pressures on management to meet performance targets or market expectations. This raises the risk of the likelihood of fraud in the financial statements to a higher level which requires the auditor to exercise a much higher degree of skepticism and carry out extended audit procedures to eliminate the possibility of fraud or material error in the financial statements.

In carrying out the audit for the financial year ending March 31, 2020 auditors must be particularly mindful of the heightened risk of fraud and comply with the guidance provided by SA 240, “The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements”.
Conclusion

The impact of COVID-19 on the economy, financial markets and entities in particular continues to evolve.

The role of auditors at times like this is under increased scrutiny as the auditors have a public interest obligation to complete the audit work in accordance with professional standards and ethics requirements. Under the current circumstances, auditors must recognise that the manner in which they conducted the audits in the past may need significant modification to address the challenges and uncertainties arising out of the impact of COVID-19. Auditors should exercise a very high degree of skepticism and be prepared to call out where the Company’s narrative that the Board presents is not specific enough and does not “tell the whole story” of the various scenarios and level of uncertainty specific to the Company’s operations. Irrespective of the challenges and uncertainties, there should not be any dilution or non-compliance with the auditing standards in carrying out the audits.
This guidance has been prepared to highlight key areas of focus in the current environment in India, 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 Standards on Auditing (SAs). This guidance does not amend or override the SAs. Reading this guidance is not a substitute for reading the SAs. Preparers, those charged with governance and users of financial statements may find this guidance 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.

The Board of Directors of every company are required to make a statement in the Directors’ Responsibility Statement referred to in Section 134(5) of the Companies Act, 2013 that the directors had prepared the annual accounts on a going concern basis i.e. whether the Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment. Some companies have the impression that this issue of evaluation of going concern basis is more concerned with regard to the auditor rather than the Board of Directors. This is not true, management will need to give significant consideration to this area, especially in the current environment and early engagement on this topic will be important. As the situation is changing very rapidly and uncertainties crop up, the assessment by the Board needs to be dynamic and reflect the facts considering the latest conditions and information.
Timely and effective communication between the management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern aspect during these uncertain times.

There are various factors that impact the ability of an entity to continue as a going concern. Out of such factors, the auditor as well as the company needs to essentially consider the impact of COVID-19 on going concern evaluation critically.

In completing work related to going concern in the current environment, auditors should focus on all the requirements set out in SA 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. Reference should also be made to the “Implementation Guide to SA 570 (Revised), Going Concern” issued by the Auditing and Assurance Standards Board of ICAI.

This guidance focuses on the implications of the COVID-19 pandemic for the auditor’s work related to going concern, including the following:

- Matters an auditor should consider for going concern assessment due to COVID-19 and inherent uncertainty;
- Management and the auditor's respective responsibilities in relation to going concern;
- Period of going concern assessment;
- Additional audit procedures required when events or conditions are identified which may cast significant doubt on the entity’s ability to continue as a going concern;
- Implications for the auditor's report - auditor's report may include (depending on the nature and circumstances of the entity):
  - “Material uncertainty related to going concern” paragraph (in accordance with SA 570(Revised)), where appropriate.


- Modifications of the auditor's opinion (i.e., qualified, adverse or disclaimer of opinion) where necessary.
- Enhanced or new key audit matters (where key audit matters are included in the auditor's report).

This guidance includes specific FAQs to deal with the various situations in the current environment.

<table>
<thead>
<tr>
<th>Key questions/inquiries an auditor should consider due to COVID-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has management performed a preliminary assessment of the entity’s ability to continue as a going concern? Whether auditor has discussed with management the impact of the COVID-19 outbreak, if any, on their assessment?</td>
</tr>
<tr>
<td>Were there interruptions in the supply and production cycle of the entity due to the COVID-19 outbreak? If so, does management have a feasible recovery plan? Do these events or conditions cast significant doubt about the entity’s ability to continue as a going concern? Are these disruptions expected to continue for a foreseeable future and the action plan of the management to mitigate these risks?</td>
</tr>
<tr>
<td>Did the auditor note any contradiction in audit evidence provided by the entity (e.g., different assumptions or inputs used for different purposes)?</td>
</tr>
<tr>
<td>Are there any financial difficulties, resulting in additional credit risks, higher than usual bad debts and potential impairments and write-offs because of the COVID-19 outbreak? Has management considered these situations in their assessment of the entity’s ability to continue as a going concern?</td>
</tr>
<tr>
<td>Are there any potential issues related to debt, including debt covenants, which are applicable to the entity (for example, is the entity in compliance with debt covenants or do debt agreements contain material adverse change clauses or call provisions)? Has management considered these situations in their assessment of the entity’s ability to continue as a going concern?</td>
</tr>
<tr>
<td>Whether the auditor considered the risk of inadequate disclosures in the financial statements related to the COVID-19 outbreak and management’s recovery plans?</td>
</tr>
</tbody>
</table>
Frequently Asked Questions (FAQs)

Question 1: Which matters specific to the current environment and the effects of the COVID-19 pandemic should be considered by the management when assessing the entity’s ability to continue as a going concern?

Response: The COVID-19 pandemic is likely to have significant implications for global economies and markets for certain industries such as restaurants, entertainment, hospitality, retail and travel especially aviation. 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.

As part of a going concern assessment, it is critical for management to assess what impact the current events and conditions have on the entity’s operations and forecasted cash flows, with a focus on whether the entity will have sufficient liquidity to continue to meet its obligations as they fall due. Management will need to consider the existing and anticipated effects of the COVID-19 pandemic on the assumptions in its assessment giving particular attention to significant assumptions that are sensitive or susceptible to change or are inconsistent with historical trends.

The auditor is required to consider whether management’s assessment includes all relevant information they are aware of at the time of assessment and the auditor compares it with the information that the auditor is aware of as a result of the audit. The auditor should assess how management addressed the considerations listed below and their impact on the entity to help identify and focus on the most sensitive assumptions that are likely to increase the risk of a material uncertainty on a case-by-case basis. This assessment involves judgment and it is auditor’s responsibility to maintain an appropriate level of professional skepticism.
The auditor should also consider the necessity with regard to involvement of an expert to assist in asset valuations, given the current uncertainty in both local and global markets and how the expert has developed his assumptions. Valuations based on projected future cash flows are likely to be more challenging, as developing robust models of cash flows into the future may be more difficult given current volatility and uncertainty.

The considerations related to the COVID-19 pandemic that management should include in their assessment are discussed below:

**Regulatory considerations**

- The impact of measures taken by governments in all the countries where the entity operates.
- Changes to the entity’s access to capital impacted by measures taken by regulators (industry and/or financial) or banks.
- The entity’s ability to prepare timely financial statements or other required information/filings, including delays in receiving financial data from operations in other countries or material investees for consolidated financial statements.
- The entity’s ability to meet regulatory ratios.

**Operating environment considerations**

General considerations include restructuring of the entity/group (actual or planned) and its business (e.g., store closures, workforce reduction) that may be needed to generate sufficient cash flows. The auditor should determine if there are any restrictions on disposing of assets, such as in existing debt agreements or actions subject to Board approvals. Other considerations related to the operating environment include but are not limited to:

- The level of lost revenue and cash flows including the effect of rebates, refunds and allowances.
- The level of pricing and volume volatility impacting revenue.
• Impact of foreign exchange fluctuations including the impact of any hedging arrangements to reduce uncertainty.

• The risks relating to delivering products and services (e.g., workforce being ill / plant and facilities being inaccessible / inventory unable to reach end markets).

• Significant deterioration in the value of current assets – particularly inventory and whether management has considered possible write downs or write-offs of inventory.

• Loss of existing contracts and future contracts, particularly if facilities are being repurposed to support restructuring or recover losses arising due to COVID-19.

• Inability to honour certain terms of contracts leading to penalties by regulators/counterparties and suitability of invocation of force majeure clauses.

• Foreign exchange fluctuations and how these have been considered.

• Customers finding other sources of supply during the COVID-19 pandemic and not returning.

• The ability of the business model to operate under current COVID-19 restrictions and whether the business model will be sustainable post COVID-19 (e.g., travel and leisure industry).

• Raw material pricing due to sourcing challenges and the related impact to projected gross margin levels.

• Increase in operating costs or cost of supplies due to restrictions related to COVID-19 and anticipated additional costs on account of adjusting to post COVID-19 scenario.

• Supply chains interruptions due to delays in overseas supplies (no longer just-in-time).

• Grants and other relief provided by governments (such as relief in the form of deferral of payments).
• Overseas supplies no longer available due to overseas governments’ actions.
• Costs associated with temporary suspension of operations.
• Restart costs - certain processes may require extended restart periods or remediation or require regulatory approvals before production can begin, supply chain may not be resilient in the circumstance and not able to restart in accordance with the entity’s plans.

Liquidity considerations

Operational considerations:
• Risk relating to receivables (delays or failures of counterparties, requests for changes in payment terms).
• Loss in ability to factor trade receivables due to uncertainties over collectability.
• Impact of trade financing products such as letters of credit, forfaiting, shipping and payment terms, etc.
• Risk of significant business expansion into a new sector that is not sustainable in the future.
• Adverse movement in bond yields leading to deterioration of value of investments and impact on recoverability due to adverse market movements.

Funding considerations:
• Understanding the sources of available cash – shareholders (including related parties), lenders.
• Position of asset liability mismatch especially in case of financial institutions and the adverse implications of such ALM gap.
• Determination of whether funding facilities are on demand or committed, any representations or warranties required by funding agreements and if there is a risk of funding being withdrawn.
• The impact on funding due to but not limited to:
  o Potential covenant breaches.
Material adverse changes/material adverse event clauses in debt agreements.

Debt maturity profile and impact of COVID-19 on refinancing risk.

- Clarity on how any accounting for exceptional items or adjusting items will be treated in determining covenant compliance.
- Risk of contingent liabilities (bank guarantees, performance guarantees, bonding, etc.).
- Risk that the parent company will no longer support the business.

Management information and forecasting capability considerations

- Quality and timeliness of the financial and operational information used to manage the day to day business.
- Appropriateness of methodology or approach to short-term cash forecasting.
- Management’s track record on forecasting expenditure such as cost reductions, plant restarts due to COVID-19.
- Whether management prepared a reverse stress test of liquidity, solvency and where applicable, covenant compliance to consider the maximum downside risk that would need to be managed through.
- Whether management has put in place actions in defining contingency plans for all aspects of the business.

Mitigating factors that can be considered by the auditor

The following considerations may mitigate the risks listed above which the auditor may consider:

- Any mitigating actions available to management (e.g., capital expenditure reductions, reduction in dividends, suspension of non-performance based bonuses, deferral of payments of principal and interest, cost reduction actions, working capital reduction, taxation payment holidays or deferrals or COVID-19 driven government funding, asset liquidation, government supported staff retention schemes and other governmental measures)
• Arrangements with lenders to lend against any government guaranteed cash flows (if available) to improve liquidity. Nevertheless, the auditor should consider whether the impact of any mitigating factors have been reflected in the revised business plan or forecast (e.g., reduced capital expenditure may impact production and in turn may reduce revenues), and whether these actions are feasible and in the control of management, or do these actions rely on third party or government actions.

Question 2: When evaluating management’s assessment of the entity’s ability to continue as a going concern, what period should be used by the auditor?

Response: In financial reporting frameworks (Ind AS 1, Presentation of Financial Statements and AS 1, Disclosure of Accounting Policies), there is an explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern. In assessing an entity’s ability to continue as a going concern, Ind AS 1 and AS 1 require that all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period, should be considered by management. In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SA 560, Subsequent Events, the auditor shall request management to extend its assessment period to at least twelve months from that date.

The auditor should remain alert for and consider the consequences of known or expected events that will occur soon after the twelve months from the end of the reporting period (e.g., ceasing of operations or slowing due to supply chain issues, significant reduction in sales due to restricted operations for non-essential retail businesses, maturing of debt and strained cash flows, or loan covenants that may not be met during the evaluation period (e.g., because of a

1 Please refer FAQs 45-46 of COVID-19: FAQs on Ind AS issued by the Accounting Standards Board of ICAI.
significant reduction in fair value of investments and other assets), or an entity will be unable to pay its creditors shortly after the twelve months from the end of the reporting period. 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.

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 audit procedures in accordance with paragraph 16 of SA 570 (Revised). Paragraph A16 of SA 570(Revised) includes examples of audit procedures that may be relevant to the requirement in paragraph 16 in the circumstances. Please refer Appendix A for details.

In accordance with Ind AS 10, Events Occurring after Reporting Period / AS 4, Contingencies and Events Occurring after the Balance Sheet Date, events after the reporting date that indicate an entity is no longer a going concern are adjusting events that should be considered in the entity’s going concern assessment. If management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, the financial statements may require a fundamental change in the basis of accounting (e.g., to liquidation basis of accounting), rather than an adjustment to the amounts recognised within the original basis of accounting.

**Question 3: Whether the position as on balance sheet date i.e. as on 31st March 2020 or the position of the company post lock-down when auditors are signing the auditor’s reports, should be the basis for assessing going concern uncertainty?**

**Response:** As stated in response to Question 2 above, if management’s assessment of the entity’s ability to continue as a going concern covers less than
twelve months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date. However, the auditor needs to 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. 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 is required to perform additional audit procedures as indicated in Question 2 above.

**Question 4: How management should update or change its assessment of the entity’s ability to continue as a going concern from previous periods in the current situation?**

**Response:** Assumptions used in management’s going concern assessment should be regularly updated for the effects of COVID-19. The extent of these updates should be specific to the entity and should include consideration around the markets and industry in which it operates, their customers’ ability to continue in business and pay bills, support provided by local governments, the effects of social distancing and lockdown laws and assumptions used in their forecast, such as growth rates and changes in working capital balances, their capital and liquidity analysis and availability of funding sources and also consider regulatory restrictions or relaxations in the said assessment.

Management typically relies upon historical financial results, known changes in the business and competitor and industry data to provide evidence of the reasonableness of the assumptions used in its assessment. However, given current economic and market conditions, historical financial results are unlikely to provide a basis for future cash flows and therefore management will likely need to consider additional sources of information when evaluating the reasonableness of the assumptions used in its assessment. Management is expected to prepare a range of scenarios based on different dates of recovery to determine the potential impact on underlying performance and future funding requirements. It is important that these scenarios adequately address the impact of COVID-19 by applying stricter parameters than those used in the past.
The following sources of information may provide evidence to assess the reasonableness of the assumptions used:

- Industry reports.
- Analyst reports.
- Third party studies.
- Data from the World Health Organization (WHO) or local institutions about the expected progression of the COVID-19 outbreak in the countries.
- Data from governmental sources about the severity and estimated duration of the economic downturn and actions the government may take to mitigate the effects.

The auditor should ask management to rechallenge forecasts and assumptions that have not been updated for current events (e.g., forecasts developed before the COVID-19 outbreak). With circumstances changing rapidly due to COVID-19 with severe impacts in some industries (restaurants, entertainment, tourism, such as airlines, cruises, hotels, etc.), making the required projections to assess the entity’s ability to continue as a going concern in some cases can be extremely difficult. There could be new factors and complexity affecting management’s going concern assessment as a result of the COVID-19 pandemic, therefore the assessment may require specialized knowledge. The auditor should discuss with management whether they are considering involving a management’s expert (as defined in SA 500, Audit Evidence) in developing their forecasts for their assessment and plan the audit response accordingly.

**Question 5: Which audit procedures should an auditor perform to evaluate management’s plans for future actions and the feasibility of those plans?**

**Response:** The auditor should evaluate management’s plans for future actions in relation to its going concern assessment and whether management’s plans are feasible in the circumstances and whether the outcome of these plans is likely to improve the situation. If the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in assessing the future outcome of
events or conditions in the evaluation of management’s plans for future action, the auditor should:

- Evaluate the reliability of the underlying data generated to prepare the forecast.
- Determine whether there is adequate support for the assumptions underlying the forecast.

To evaluate management’s plans, the auditor should discuss with management its plans to liquidate assets, borrow money or restructure debt, reduce or defer expenditures, or increase ownership equity. The auditor should also assess the likelihood of the plans being implemented effectively and within an acceptable timeframe. Further, inquiries should be made whether the plans have been shared with those charged with governance, lenders, regulators, and outside credit and investment analysts.

For each significant assumption, the auditor should evaluate management’s ability and intent to carry out actions on which the assumption is based, including whether the assumption is consistent with management’s expectations of the outcome of specific objectives and strategies (e.g., to assess the reasonableness of gross margin as a percentage of revenue, the auditor should consider reviewing the status and approval of restructuring plans that significantly reduce costs in future years).

**Question 6: Which factors should an auditor consider in determining the adequacy of management’s disclosures related to an entity’s ability to continue as a going concern?**

**Response:** If management has significant doubt about the entity’s ability to continue as a going concern, the uncertainties should be disclosed, even if the conclusion is that no material uncertainty exists, and when a material uncertainty exists related to going concern make clear to the readers that the entity’s ability to continue as a going concern is subject to a material uncertainty.
Additionally, the auditor should consider the following in determination of the adequacy of management’s disclosure of underlying events or conditions related to going concern:

- Additional line items or sub-totals on the face of the income statement may be included to enhance users’ understanding of the entity’s performance (such as an impairment adjustment).

- Disclosures regarding estimation uncertainty may need to be increased (e.g., assumptions may be subject to a material change within the next period).

- Disclosure of any changes in financial risks such as credit risk, liquidity risk, currency risk and other price risk, and changes in objectives, policies and processes for managing those risks are expected. In particular, additional disclosures about liquidity risk might be needed when COVID-19 has affected cash flows from operations or the ability to access cash in other ways such as from government payments, factoring receivables or supplier financing.

- Updates are likely to be needed to management’s analysis of principal risks and uncertainties (e.g., qualitative disclosures about risks and uncertainties that in the near term (i.e., within one year from the date of the financial statements) that could significantly affect the amounts reported in the financial statements or the functioning of the reporting entity).

- Management may need to make additional disclosures in the Board of Directors’ report or in information in the annual report (other than the financial statements and the auditor’s report) as required by respective regulatory framework. The auditor should determine his responsibilities towards this information in accordance with SA 720(Revised), The Auditor’s Responsibilities Relating to Other Information.

**Question 7: How should an auditor report a material uncertainty related to going concern in the auditor’s report and how does the adequacy of management’s related disclosures affect auditor’s report?**

**Response:** The identification of a material uncertainty relating to going concern is a matter that is important to users’ understanding of the financial statements.
The use of a separate section in the auditor’s report with a heading that includes reference to the fact that a material uncertainty relating to going concern exists alerts users to this circumstance.

**Example of wording in the auditor’s report:**

“Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which [describe material uncertainty]. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.”

When the auditor concludes that the use of the going concern basis of accounting is appropriate in the circumstances, but a material uncertainty exists, the auditor should also determine whether the financial statements adequately disclose the matter and management’s plan to deal with the event or condition giving rise to the material uncertainty. When the disclosures are adequate, an unmodified opinion should be issued, and the above section should be included in the auditor’s report.

The description of the material uncertainty in the auditor’s report is required to be made under the separate paragraph “Material Uncertainty Related to Going Concern” in accordance with SA 570(Revised) and should not be included under Emphasis of Matter paragraph.

However, if adequate disclosure about the material uncertainty is not made in the financial statements, the auditor should express a qualified opinion or adverse opinion (depending on the pervasiveness of the matter to the financial statements (i.e., the inadequacy of disclosures)). In the Basis for Qualified (Adverse) Opinion section of the auditor’s report, the auditor should state that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the financial statements do not adequately address this matter.
Question 8: How are matters related to evaluation of an entity’s ability to continue as a going concern considered in the determination of key audit matters?

Response: For many of the companies, it is likely that the COVID-19 pandemic will be an event or condition that may cast significant doubt on an entity’s ability to continue as a going concern and, in some cases, matters related to the COVID-19 pandemic may give rise to a material uncertainty related to going concern. When the auditor determines that there is a material uncertainty related to going concern, the auditor should not include that material uncertainty within key audit matters (KAM) Section and instead report the material uncertainty in a separate section of the auditor’s report in accordance with SA 570(Revised). In other cases, the judgments the auditor makes in his evaluations may be matters that required significant auditor attention and therefore are considered in the auditor's determination of KAM.

It is possible to identify KAM related to going concern matters in accordance with SA 701, Communicating Key Audit Matters in the Independent Auditor's Report which would be reported in the KAM section of the auditor's report, when the auditor:

- Identifies events and conditions that may cast significant doubt on an entity’s ability to continue as a going concern; and
- Concludes that no material uncertainty exists; and
- Concludes that the disclosures related to those events or conditions are adequate.

The auditor should note that if disclosures related to the events or conditions are not adequate, this constitutes a misstatement that an auditor should evaluate in determining whether a material misstatement exists and if so, the auditor determines the related effects on the auditor's report. Matters that give rise to a modification of auditor's opinion are disclosed in the Basis for Opinion section of the auditor's report and are not reported in the KAM section of the auditor's report.
If the auditor determines that matters related to going concern are KAM, the auditor should not include in the description of such matter(s) in the auditor's report that such issues arose in their evaluation of whether or not a material uncertainty related to going concern exists. Instead, the auditor should describe the identified events or conditions disclosed in the financial statements that were the focus of auditor's attention, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors (refer paragraph A41 of SA 701).

**Question 9: Can an auditor rely on “Support Letter” from Parent Company in COVID-19 situation while making going concern assessment?**

**Response:** Where an auditor relies on a “support letter” as audit evidence, the auditor should also evaluate the financial strength and capability of the parent company issuing support letter to be able to discharge liabilities of the company. The auditor should be more careful in a situation where the last available financial statements of the investor/parent were issued before the breakout of the COVID-19 pandemic. In such situations, the auditor should:

- Obtain and evaluate information obtained in public domain about the investor/parent who has issued support letter, which may include historical financial information, other information or forward-looking statement / guidance issued by the parent company.
- Obtain information from the auditors of the investor/parent if they can provide insight into financial viability of the investor/parent.

However, if the auditor is not able to obtain sufficient appropriate audit evidence about the financial strength and capability of the parent company, the auditor should evaluate the impact on the auditor's report i.e. whether a material uncertainty exists related to going concern or a disclaimer of opinion is required if the impact is pervasive.
Question 10: What is the responsibility of the auditor if there is significant delay in the approval of financial statements?

Response: Paragraph 26 of SA 570 (Revised) 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 SA 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 SA 570 (Revised).

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

Question 11: What is the responsibility of the auditor if the management itself concludes that the going concern assumption is not valid and prepares the financial statements considering net realisable values of assets and giving suitable disclosure i.e. it prepares financial statements on liquidation basis of accounting?

Response: In such cases, the auditor should refer paragraph 21 of SA 570(Revised) and corresponding application guidance in paragraph A27 of SA 570(Revised). Paragraph A27 states that when the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express
an unmodified opinion on those financial statements, provided there is adequate
disclosure therein about the basis of accounting on which the financial
statements are prepared, but may consider it appropriate or necessary to include
an Emphasis of Matter paragraph in accordance with SA 706 (Revised) in the
auditor's report to draw the user's attention to that alternative basis of
accounting and the reasons for its use.

Whatever the situation, SA 570 (Revised) that apply to assessing going concern
make it necessary for auditors to:

- Discuss the impact of COVID-19 on entities with management and those
  charged with governance;

- Obtain sufficient appropriate audit evidence to assess whether the
disclosures given by management about the COVID-19 events are
appropriate; and

- Document the audit evidence and their considerations in such a way that, in
line with SA 230-Audit Documentation, they can provide an experienced
auditor an understanding regarding procedures performed with respect to
going concern, the results from these procedures, and the resulting audit
evidence obtained, and the conclusions which the auditor has drawn and the
support thereof, all in line with paragraph 9 of SA 570(Revised), Objectives of
the Auditor.
Appendix A: Additional Audit Procedures When Events or Conditions Are Identified

Audit procedures that are relevant to the requirement in paragraph 16 of SA 570(Revised) may include the following:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity’s latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity’s legal counsel regarding the existence of litigation and claims and the reasonableness of management’s assessments of their outcome and the estimate of their financial implications.
- 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.
- Evaluating the entity’s plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity’s ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.
A. **Background**

Physical verification of inventory is the responsibility of management of the entity. Management is required to establish procedures under which inventory is physically counted at least once a year to ensure existence, condition and support valuation of inventory.

The Companies (Auditor’s Report) Order, 2016 (CARO 2016) also requires auditors to comment on “Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account”.

SA 500, “Audit Evidence” prescribes that the objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion. When inventory is material to the financial statements, SA 501, “Audit Evidence - Specific Considerations for Selected Items” requires that the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

(a) **Attendance at physical inventory counting**, unless **impracticable** to:

   i. Evaluate management’s instructions and procedures for recording and controlling the results of the entity’s physical inventory counting;

   ii. Observe the performance of management’s count procedures;

   iii. Inspect the inventory; and

   iv. Perform test counts; and
(b) Performing audit procedures over the entity’s final inventory records to determine whether they accurately reflect actual inventory count results.

The term “impracticable” has been explained in paragraph A12 of SA 501 as below:

“A12 In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.”

B. Auditor’s Considerations in Various Scenarios

The COVID-19 outbreak could create several potential challenges for management of an entity to conduct physical inventory counting and for the auditors to attend these counts. With scenarios like lockdown, travel restrictions etc. as imposed by Government of India, physical inventory counting would be challenging and in some cases it would be impracticable. Possible challenges in this regard are discussed below.

B.1 Management unable to conduct physical inventory counting as on the date of financial statements

Due to Government imposed restrictions, there could be situations where management is unable to conduct physical inventory counting as on the date of financial statements for example, inventory is held in locations which are closed due to Government imposed lockdown. In such a scenario, management should inform the auditors and those charged with governance the reasons of not conducting the inventory counting.
B.2 Physical inventory counting conducted by management at a date other than the date of financial statements

- Where an auditor decides to observe the physical inventory counting at a date other than the date of the financial statements, the auditor would need to comply with the procedures given in paragraphs 5 and 6 of SA 501 read with paragraphs A9 to A11 of SA 501.

- Attending inventory counting at an alternative date may involve attending inventory counting at a later date from the date of the financial statements with performing roll-back procedures to the balance sheet date, or, if an inventory counting was conducted by the entity and attended by the auditor at an interim date before the date of the financial statements, it may be possible to use those findings and perform roll-forward procedures to the balance sheet date.

- Roll-forward or roll-back procedures may also be a viable option where the entity has a continuous inventory counting system. Auditors should also consider whether the time between the balance sheet date and the date of the inventory counting being performed reflects the appropriate assessment of the physical condition of inventory.

- It should be noted that auditors should not take a blanket approach to all their audit clients as there may be some industries in which business has not been adversely affected, and thus above mentioned approach may not be appropriate in such circumstances.

- Any approach to the audit of inventory involves the consideration of the quality of the entity’s inventory records and internal controls over inventory movements and records. Auditors should exercise professional skepticism and consider whether inventory records and internal controls have deteriorated as a result of current events, including assessing any additional actions taken by the entity regarding its security. Accordingly, auditors should appropriately consider the impact of the aforesaid on their opinion on internal financial controls under section 143(3)(i) of the Companies Act, 2013.
• Reference may also be made to paragraphs 2.47 to 2.62 of the “Implementation Guide to SA 501” issued by the Auditing and Assurance Standards Board of ICAI.

B.3 Alternative audit procedures where it is impracticable for auditors to attend physical inventory counting

Due to various restrictions imposed due to COVID-19 outbreak, in certain cases it could be impracticable for auditors to physically attend the inventory counting. In such cases, the auditor would need to comply with the procedures given in paragraph 7 of SA 501 read with paragraphs A12 to A14 of SA 501. These paragraphs are given below:

“7. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705(Revised). (Ref: Para. A12-A14)

A12. In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

A13. In some cases where attendance is impracticable, alternative audit procedures, for example inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

A14. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, SA 705(Revised) requires
the auditor to modify the opinion in the auditor's report as a result of the scope limitation.”

Reference may also be made to paragraph 2.61 of the Implementation Guide to SA 501 which states as below:

“Such audit procedures include:

- Evaluation of control design in respect of inventory process and testing whether such controls have operated effectively during the period of audit. Such controls would encompass the processes around purchase and sales which eventually impact the stock balance held at the date of the financial statements.

- Verification of documentation supporting purchases and subsequent sale of specific inventory items. These procedures would indirectly provide evidence that stock balance which was not physically verified actually existed as on the date to enable subsequent sales and indirectly support and corroborate the assertion of existence.”

B.3.1 The use of alternative audit procedures may include one or more of the following:

(a) Using the work of internal auditor

Paragraph A16 of SA 610(Revised), “Using the Work of Internal Auditors” states as below:

“Examples of work of the internal audit function that can be used by the external auditor include observations of inventory counts.”

As stated in paragraph A16 of SA 610(Revised), the external auditor can use the work of internal auditor regarding inventory verification. However, it needs to be noted that the external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement. It also needs to be noted that the external auditor's use of the work of the internal audit function or internal
auditors to provide direct assistance on the engagement would also depend on the assessment of the risk regarding existence of inventory. Paragraph 18 of SA 610(Revised), *inter alia*, states the external auditor shall plan to use less of the work of the internal audit function and perform more of the work directly if the assessed risk of material misstatement at the assertion level (existence) is higher and with special consideration given to risks identified as significant.

If the external auditor intends to use the work of the internal audit function or internal auditors to provide direct assistance on the engagement, in addition to complying with the requirements of SA 610(Revised), **the external auditor shall also perform the following procedures:**

1. Understand and evaluate the competence, independence and objectivity of the internal auditor.

2. Obtain and evaluate the adequacy of the inventory physical verification instructions prepared and issued by the management to determine if the instructions provided are appropriate and comprehensive.

3. Issue instructions to the internal auditor on the procedures to be performed by the internal auditor, including indication of the samples selected by the external auditor for verifying inventory from the books to the floor. The external auditor shall also specify the sample size for verification by the internal auditor of inventory from the floor to the books and the indicative qualitative / quantitative factors that should be considered by the internal auditor when selecting the samples.

4. Issue a copy of the instructions issued by the management (as stated in point 2 above) to the internal auditor and instruct the internal auditor to assess compliance with the instructions during the physical verification process.

5. Issue any other instructions to the internal auditor regarding the inventory counting as may be deemed necessary considering the external auditor's assessment of the risk and understanding of the entity's business and operations.
6. Inform the internal auditor of the deliverables like inventory counting reports, memorandum of observations on the inventory counting, conclusions reached, etc. that are to be prepared and provided to the external auditor after the inventory counting.

(b) Engaging other Chartered Accountant(s) to attend physical verification

Where due to lockdown restrictions imposed by the Government, the auditor is not able to attend the physical verification of inventory, the auditor in discussion with the management may appoint other Chartered Accountant(s), who is resident of the location of the entity’s warehouse/ factory/ inventory, to observe the physical counting. The auditor should issue instructions to the other Chartered Accountant(s) as described in points 1 to 6 given in paragraph B.3.1.(a) above. In addition the auditor, where feasible, may virtually participate in the observation of the physical verification being conducted by the management through video applications as this would enable him to assess the efficacy of the internal controls operating during the physical verification process for determining its impact on his audit procedures.

Additionally, the auditor should also perform the following procedures:

- Inquiring for any relationships that may create a threat to objectivity of Chartered Accountant(s).
- Determine the nature and extent of work to be assigned.
- Communicate planned use of Chartered Accountant(s) with those charged with governance.
- Obtain written agreements from the entity for the use of Chartered Accountant(s) and from Chartered Accountant(s) for providing direct assistance.

The auditor should direct, supervise and review the work performed by Chartered Accountant(s) providing direct assistance, including providing instruction / work program, including sample selection.
For supervising the work of such Chartered Accountant(s), the auditor may use web or mobile-based video-conferencing technologies (i.e., Microsoft Teams, Facetime, Whatsapp, Zoom).

(c) Use of technology in inventory counting

In certain situations where physical attendance by auditors at inventory counting is not possible, they may be able to observe the inventory counting remotely via video call with the help of technology. Auditors would need to ensure the security on these applications. Auditors would need to understand the technological and practical constraints to observing an inventory counting remotely. If auditors are observing an inventory counting remotely, they would need to perform the same procedures as required in case of physically attending the inventory counting.

Virtual attendance

If the entity intends to conduct a full inventory counting, auditors may be able to attend virtually, for example using video call facilities. This method of gathering audit evidence should be approached with caution as there are inherent weaknesses with this. For example, obsolete or damaged stock may be hidden from view and records-based alternative audit procedures may not detect this. This should be used only in circumstances wherein the inventory items can be identified with a unique reference number etc. so that there are no chances of replacement of inventory during/ after inventory counting. Further, auditors may carry out additional procedures to mitigate the increased risk which might include increasing sample sizes and following up on items tested at a later date. Also, auditors should consider the previous experience while conducting inventory counting at an earlier date (e.g. inventory counting conducted at an interim date before the year end).

Leveraging technology to help with inventory counting

Standards on Auditing do not prohibit use of technology when performing inventory observations. If auditors are satisfied with the inventory counting
process, they may be able to utilize technologies to observe these counts. Of course, auditors may need to ensure there is some level of comfort that the videos are live feeds of client inventory locations, perhaps by confirming visually with key staff and using voice technology to have cameras moved to specified locations on command and direct certain boxes to be opened.

### B.4 Inventory held by a third party

Where the entity has inventory under the custody and control of a third party, it may be possible, in accordance with SA 501 to place reliance on confirmation received from that third party regarding the quantities and condition of the inventory held on behalf of the entity. However, in such cases, auditors would need to exercise professional skepticism and perform a careful evaluation of such confirmations since auditors themselves have not been able to attend the physical inventory counting. It would be preferable that such confirmations are obtained by the direct confirmation requests addressed to the auditor directly without the management being involved in the process.

In this regard, the auditor should read and understand the contract with the third party to determine if the contract specifies the responsibility of the third party to track and record the inventory of the entity separately and any consequential impact on the ability of the auditor to rely on such confirmation from the third party.

### B.5 Inventory in transit / cut-off procedures

Due to the lockdown situation, it might be possible that inventory purchased or sold might be locked up in transit. Auditors should obtain suitable audit evidence regarding the location and condition of the inventory including documentary records about purchases/sales. Appropriate cut-off procedures need to be employed to ensure appropriate quantities are considered in the inventory.
C. **Implications for the Auditor’s Report**

C.1 The primary responsibility of the auditor is to physically attend the inventory counting either at/ prior to/ post the balance sheet date as required by SA 501. Even in situations where the auditor opts for alternative audit procedures as envisaged in paragraph B.3 above, the auditor is not absolved from the primary responsibility in respect of attendance at physical inventory counting and thus cannot include a division of responsibility in the auditor’s report in respect of alternative audit procedures carried out.

C.2 The implications of an inability to attend inventory counting on the auditor's opinion will depend on the quality and reliability of audit evidence obtained by performing alternative audit procedures. Where such alternative audit procedures provide sufficient appropriate audit evidence to conclude that inventory is free from material misstatement, the auditor’s opinion need not be modified in respect of inventory.

C.3 However, if it is not possible to perform alternative audit procedures to obtain sufficient appropriate audit evidence in relation to material inventory balances, the auditor should modify the opinion in the auditor's report in accordance with SA 705(Revised). In many cases, this will result in a modified auditor's opinion due to a limitation of scope. Nature of modification i.e. qualification vis-à-vis disclaimer would depend on whether the matter is pervasive to the financial statements.
Auditor’s Reporting
Key Audit Considerations amid COVID-19

Background

The auditor’s responsibility for forming an opinion on the financial statements is dealt with in SA 700(Revised), “Forming an Opinion and Reporting on Financial Statements”. SA 700(Revised) deals with unmodified auditor’s opinion. SA 705(Revised), “Modifications to the Opinion in the Independent Auditor’s Report” deals with the auditor’s responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700(Revised), the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary. SA 705(Revised) requires that if the auditor:

- concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor’s report.

This responsibility is heightened in the present situation, where COVID-19 and its related preventive measures, such as lockdown and travel restrictions by the Government of India have impact on business operations.

Management’s Responsibility

While preparing the financial statements, considering the nature of business of the entity, the management needs to make a detailed assessment (to the extent possible based on the information available) of the impact of COVID-19 on the items, components of the financial statements including disclosures in the financial statements (e.g. appropriateness of carrying values of goodwill and other intangible
assets, fair valuation, impairment of assets etc.) and the appropriateness of the going concern basis of accounting.

The management’s responsibility includes making appropriate adjustments to the financial statements and ensuring necessary disclosures, such as disclosures of subsequent events, risks and uncertainties, and how events and conditions may impact future operating results, cash flows and financial position of the entity. Other disclosures may include business risk factors and management's discussion and analysis of results, liquidity and capital resources. In this context, the auditor should also consider the requirements of SA 720(Revised), “The Auditor’s Responsibilities Relating to Other Information”.

It is possible for the management of an entity carrying on the business of essential commodities to conclude that there is no impact on the operations of the entity. However, the management should also consider the related factors, such as the possible disruption of the supply chain, availability of customers for its commodities, and take an informed decision on whether its operations are impacted or not.

**Auditor’s Responsibility**

While carrying out audit in accordance with the Standards on Auditing (SAs) and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India, the auditor may conclude on the following:

- Modification to the auditor's opinion due to material misstatements or an inability to obtain sufficient appropriate audit evidence [SA 705(Revised)].

- Inclusion of a ‘Material Uncertainty Related to Going Concern’ section in the auditor's report [SA 570(Revised), Going Concern].

- Inclusion of an Emphasis of Matter paragraph and/or Other Matter paragraph in the auditor's report [SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report].
• Inclusion of key audit matters in the auditor’s report [SA 701, Communicating Key Audit Matters in the Independent Auditor’s Report].

While considering the auditor’s reporting in respect of the impact of COVID-19 on the financial statements of an entity, the auditor should consider whether sufficient and appropriate audit evidence is available for the auditor to be able to assess the factors set out below. These factors are indicative and not exhaustive and the auditor should always maintain professional skepticism and apply professional judgment on a case to case basis and consider other factors as applicable.

• whether the impact on the business operations/ revenues/ cash flows etc. of the entity for the year (including fair valuations, estimates, realisability, discount rates used etc.) has been appropriately assessed by the management.

• whether the events occurring subsequent to the year-end but before issuance of the auditor’s report, have been considered.

• whether any adjustments are required to the financial statements; if yes, whether the same have been appropriately accounted for.

• whether the impact on the going concern basis of accounting of the financial statements has been assessed to conclude on (a) appropriateness of the use of going concern basis of accounting, and (b) existence of material uncertainty related to going concern.

• whether appropriate disclosures have been made in the financial statements regarding the impact and the management’s assessment of the same including the impact on going concern basis of accounting.

I. Impact on Auditor’s Report

The possible impact of COVID-19 on the auditor's report is discussed below.

a. Modification of the Auditor’s Opinion [SA 705(Revised)]

The auditor should modify his opinion on the financial statements in the following circumstances:
• **Improper accounting/ inadequate disclosures:** Auditors should remain alert to the possibility that, in the current circumstances, misstatements may occur. Such misstatements may arise, for example, due to a failure to recognise adequate impairment of assets or adequate provisions for obligations or to provide related disclosures. When the auditor has concluded that the necessary accounting adjustments have not been appropriately made and/or the disclosures in the financial statements that the management has made regarding the impact of COVID-19 on the entity are not adequate or appropriate in the circumstances, the auditor’s opinion may be modified. The said modification could be a qualified or adverse opinion, as appropriate in the circumstances depending on the materiality and pervasiveness of the impact [SA 705(Revised), paragraphs 7, 8]. For example, the consequences of COVID-19 may have a potential adverse impact on cash flows and trigger an impairment test; however the management has not carried out such an assessment or has not made appropriate disclosures in respect of the underlying assumptions.

• **Inability to obtain sufficient appropriate audit evidence:** A modification to the auditor's opinion (qualification or disclaimer of opinion, as appropriate in the circumstances) is necessary if the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement [SA 705(Revised), paragraphs 7, 9]. If the auditor determines that he is unable to obtain sufficient appropriate audit evidence from alternative audit procedures possibly due to lock down, social distancing or work from home restrictions, it may affect auditor’s opinion on the financial statements, auditor’s opinion on internal financial controls and auditor’s reporting on CARO 2016.
b. **Going Concern Considerations [SA 570(Revised)]**

For many entities, the measures taken by Government in order to curb the spread of COVID-19, such as lockdown restrictions may impact the business operations and result in events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. When such events or conditions are identified, the auditor should seek sufficient appropriate audit evidence to determine whether or not a material uncertainty exists and also assess whether the use of going concern basis of accounting is appropriate and report accordingly. For detailed guidance on this aspect, please refer the guidance: “Going Concern - Key Considerations for Auditors amid COVID-19” issued by the Auditing and Assurance Standards Board of ICAI.

c. **Including an Emphasis of Matter Paragraph in the Auditor’s Report**

- As per SA 706(Revised), the term “Emphasis of Matter Paragraph” is defined as follows:

  
  **“Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.”**

- Where there are substantive COVID-19 related disclosures in the financial statements made by the management of the entity and the auditor is satisfied that these disclosures are appropriate and adequate, then based on the professional judgment of the auditor, an Emphasis of Matter (EOM) paragraph may be included in the auditor’s report. An EOM paragraph is a way to draw attention / highlight such disclosures to users of the financial statements when the auditor considers it is fundamental to their understanding of the financial statements. An EOM paragraph cannot be used as a substitute for reporting the matter as a key audit matter.
Example of EOM wordings for auditor’s report


We draw attention to Note X in the financial statements, which describes the economic and social [consequences/disruption] the entity is facing as a result of COVID-19 which is impacting [supply chains / consumer demand/ financial markets/commodity prices/ personnel available for work and or being able to access offices]. Our opinion is not modified in respect of this matter.”

• On the basis of its assessment of the impact of the outbreak of COVID-19 on business operations of the entity, the entity’s management may conclude that no adjustments are required in the financial statements as it does not impact the current financial year. However, the situation with COVID-19 is still evolving. Also, the various preventive measures taken (such as lockdown restrictions by the Government of India, travel restrictions etc.) are still in force, leading to a highly uncertain economic environment. Due to these circumstances, the management’s assessment of the impact on the subsequent period is dependent upon the circumstances as they evolve; and consequently, the auditor shall decide on the adequacy of disclosures made by the management and if disclosures are adequate, the auditor may include an EOM paragraph to highlight the uncertainties relating to the future and to draw the attention of the users of the financial statements. [paragraph A5 of SA 706(Revised)]

• As stated in paragraph A5 of SA 706(Revised), the auditor may include an EOM paragraph in the following situations while assessing the impact of COVID-19 on the entity and the impact on the financial statements:
  - An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
A significant subsequent event that occurs between the date of the financial statements and the date of the auditor’s report.

A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position.

For example, the auditor should assess the impact of COVID-19 on aviation, hospitality industries, etc.

The dictionary meaning of the word “catastrophe” is “an event causing great and usually sudden damage or suffering; a disaster”. The impact of COVID-19 should be assessed by the auditor and the auditor may include an EOM paragraph in the situations indicated above in the auditor’s report. Further, the auditor may include an EOM paragraph to highlight a significant subsequent event. It is highlighted that such EOM paragraph shall be included by the auditor only when all related disclosures are appropriately made by the management. Otherwise, it could even lead to modification of auditor’s opinion as per SA 705(Revised).

d. COVID-19 and Key Audit Matters

- A common question that is being asked is whether the impact of COVID-19 is a key audit matter (KAM) in an audit per se. The impact of COVID-19 on specific areas of the financial statements needs to be evaluated for the purpose of reporting KAM. For example, physical verification of inventory using alternative audit procedures may involve more effort vis-à-vis a non-COVID-19 scenario. Similarly, the auditor would be more skeptical about impairment assessment in current scenario. Further, it should be noted that the auditor is not performing procedures to assess the impact of COVID-19 itself rather the procedures are being performed in respect of specific items of financial statements or assumptions (for example going concern, impairment, expected credit loss, valuation etc.) and thus that particular item/assumption would qualify to be a KAM, where the criteria set out in SA 701 are met.

- When drafting the KAM in the auditor’s report, the auditor should not use
generic / vague language and should use entity specific & clearly articulated language to explain the impact of COVID-19. Language of KAM should bring out clearly the complexities arising from COVID-19 on the verification aspects of the financial statements. Lastly, a matter should be considered for inclusion as KAM only when the auditor has concluded that it does not warrant modification of the auditor’s opinion and also does not indicate a material uncertainty related to going concern.

- In some cases, a matter that has been determined to be a KAM in accordance with SA 701 may also be, in the auditor’s judgment, fundamental to users’ understanding of the financial statements (i.e., could also be reported as an EOM paragraph). When the auditor determines that the matter is a KAM, the auditor should include it in the KAM section of the auditor’s report. However, if the auditor wishes to highlight or draw further attention to the KAM (because the KAM is also considered fundamental to users’ understanding of the financial statements), the auditor may do so by presenting the matter more prominently than other matters in the key audit matters section of the auditor’s report (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users’ understanding of the financial statements.

e. **KAM Related to Going Concern**

It is possible to identify KAM related to going concern matters, which would be reported in the KAM section of the auditor’s report, when the auditor:

- Identifies events and conditions that may cast significant doubt on an entity’s ability to continue as a going concern; and
- Concludes that no material uncertainty exists; and
- Concludes that the disclosures related to those events or conditions are adequate.
In such cases, the auditor should describe the identified events or conditions disclosed in the financial statements that were the focus of the auditor's attention, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors in accordance with SA 701.

**f. Auditor's Responsibilities in respect of Discussion about the COVID-19 Pandemic included in the Other Information in the Entity’s Annual Report**

Other information that accompanies the financial statements may be expected to include discussion on the risks associated with the COVID-19 pandemic that provides entity’s additional perspectives or details beyond the information disclosed in the financial statements. As required by SA 720(Revised), the auditor should read the other information included in the entity’s annual report and consider whether there is a material inconsistency between the other information and (a) the audited financial statements; and (b) the auditor’s knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached.

When reading the other information, the auditor should pay particular attention to the information provided with regard to the impact COVID-19 may have on the entity and consider whether there is new or updated information that should be disclosed in the financial statements or that may affect the audit or the auditor’s report. In doing so, the auditor should also consider whether the other information contradicts any aspects of the auditor's understanding of the impact the pandemic has on the entity’s business or operations.

When the other information is made available after the date of the auditor’s report, the auditor is also required to read and consider the other information when it becomes available.
If the auditor identifies a material misstatement in the other information, the auditor should assess the effect on the auditor’s report and to deal with the same in accordance with SA 720(Revised).

II. Impact on Reporting under CARO 2016

With the Companies (Auditor's Report) Order, 2020, being made applicable from the financial year 2020-2021, while reporting for the financial year 2019-2020, auditors should continue to comment on the matters set out in the Companies (Auditor's Report) Order, 2016 (CARO 2016).

An illustrative list of the clauses of CARO 2016 which are expected to be impacted by COVID-19, as the auditor is required to comment as at the year-end, is given below.

a. Clause 3(ii): Physical verification of inventory

Remarks: This clause requires the auditor to comment whether the inventory of the company have been physically verified by the management at reasonable intervals and further requires the auditor to comment whether any material discrepancies were noticed on such verification and if so, whether those discrepancies have been properly dealt with in the books of account.

In this regard, where the auditor is unable to obtain sufficient appropriate audit evidence, the commenting on this clause, and where appropriate, the auditor’s opinion should also be suitably modified.

b. Clause 3(vii)(a): Reporting on deposit of undisputed statutory dues

Remarks: This clause requires reporting on the payment of statutory dues including the extent of arrears as on the last day of the financial year.

Considering that the last day of the financial year 2019-20 fell during the lockout period, and extension of time is being granted for payment of certain dues by the Government authorities / regulators, the commenting in respect of
this clause should reflect the factual position regarding the extension of date granted by the relevant authorities for payment of such dues. Further, where the company has made the payment within such extended due dates, it does not constitute a non-compliance and accordingly will not be required to be reported under this clause. However, if there is no extension of due date and an option has been given to make payments at a later date upon payment of interest and penalty, it should be reported as default.

c. **Clause 3(viii): Default in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders**

**Remarks:** RBI has issued a circular dated 27th March 2020 on COVID-19-Regulatory Package. The circular provides that companies may decide to opt for a moratorium period for repayment of term loans / working capital financing facilities etc., however interest would continue to be charged for this period.

Where the company has exercised this option, the auditor should make a factual statement in his report. Further, where the company has made the payment within such extended due dates, it does not constitute a non-compliance and accordingly is not required to be reported under this clause.

### III. Impact on Reporting on Internal Financial Controls with Reference to Financial Statements

Section 143(3)(i) of the Companies Act, 2013 requires that the auditor’s report should state whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls. Also, internal control testing is an integral part of audit procedures, as this determines the level of substantive procedures to be carried out by the auditor.
Key factors to be considered while approaching the audit:

a. Non-remediation of material weakness noticed during the period for which internal control testing had already been carried out.

b. Make inquiries on the change in the company’s mode of carrying out operations in response to the COVID-19 impact, for example, people working remotely, and consequently, the change in company’s policies and procedures, including execution of controls, for example, segregation of duties.

c. Specific matters for consideration: The impact of changes to the auditor’s understanding of the company’s system of internal control, including:
   i. The control environment.
   ii. Changes to the planned reliance on controls in determining responses to identified risks of material misstatement.

d. Rewriting the audit plan to address the changes in the internal control framework, including those relating to the design and operation of internal controls and review controls.

e. Testing the design and operating effectiveness of the updated controls framework including the segregation of duties in line with the requirements set out in the “Guidance Note on Audit of Internal Financial Controls over Financial Reporting” with the help of the related experts.

f. Evaluating the availability of electronic and digital evidence made available by management, and the review controls around the same, specifically for reliability, security and storage of such evidence.

g. Remain alert to the possibility of lapse of controls and fraud.

h. Communication with those charged with governance at every stage of the audit including the implications on the audit of the financial statements and the reporting thereon.
Reporting on Internal Financial Controls with reference to Financial Statements

The following scenarios are envisaged:

a. Main audit opinion is not modified; Emphasis of Matter paragraph has been included to highlight impact of COVID-19 assessment; the auditor has considered the key factors mentioned above in testing the design and operating effectiveness of the internal controls with reference to financial statements, and:

   i. Material weakness is identified in the design or operation of internal controls [and/or] the material weakness identified earlier remains unremediated [and/or] there is a restriction on the scope of the engagement.

   In such cases, the auditor should modify his opinion on the internal financial controls; evaluate the impact of such modification on the main audit report and as appropriate, modify the auditor’s opinion on the financial statements as well.

   ii. No concerns have been noted by the auditor with regard to the design and operating effectiveness of internal controls:

   Under these circumstances, the auditor should include a cross reference in the opinion on internal financial controls to the Emphasis of Matter paragraph included in the main audit report with regard to COVID-19 assessment.

b. Where the main audit opinion is modified in respect of any matter (including that relating to COVID-19); the auditor should evaluate the key factors mentioned above, and determine whether the modification also leads to a
modification of the report on internal financial controls and where applicable, modify the report on internal financial controls accordingly.

c. Where the auditor is unable to obtain sufficient appropriate audit evidence to form an opinion on the design and operating effectiveness of internal financial controls with reference to financial statements, the auditor should issue a disclaimer of opinion.
This document has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to subsequent events in accordance with the Standards on Auditing (SAs).

This document does not amend or override the SAs and it is not a substitute for reading the SAs.

Preparers, those charged with governance and users of financial statements may find this document helpful in understanding the auditor's responsibilities in relation to subsequent events.

I. Background

The uncertainty and challenges caused by the COVID-19 pandemic, including the likelihood of unplanned events occurring at any time, the uncertain duration of this current environment and extension of timelines for filing financial statements impact many areas of audit. Under the current scenario, entities are required to carefully evaluate the information that becomes available after the date of the financial statements but before the issuance of the financial statements. Auditors are also required to have greater focus on events occurring between the date of the financial statements and the date of the auditor’s report (i.e., subsequent events) and the effect, if any, of such on the entity’s financial statements (Please refer Appendix for relevant Definitions and Descriptions of Terms used in this document).
On March 27, 2020, ICAI has issued an “Accounting and Auditing Advisory - Impact of Coronavirus on Financial Reporting and the Auditors Consideration” (Website link: https://resource.cdn.icai.org/58829icai47941.pdf). The aforesaid Advisory provides following guidance in respect of subsequent events:

“The following needs to be considered by the management in the preparation of financial statements:

According to Ind AS 10, “Events after the Reporting Period”, events occurring after the reporting period are categorised into two viz. (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and (ii) Non-adjusting events i.e. those do not require adjustments to the amounts recognised in its financial statements for the reporting period. In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Similarly, in accordance with AS 4, “Contingencies and Events Occurring After the Balance Sheet Date”, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID-19 in measuring various assets and liabilities. They should also disclose how they have dealt with the impact of COVID-19 on the financial position and financial performance of the entity.
The responsibilities of the auditor for the subsequent events i.e. events between the date of financial statements and the date of auditor’s report as per SA 560 are as follows:

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor’s Report

6 The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Ref: Para. A6)

7 The auditor shall perform the procedures required by paragraph 6 so that they cover the period from the date of the financial statements to the date of the auditor’s report, or as near as practicable thereto. The auditor shall take into account the auditor’s risk assessment in determining the nature and extent of such audit procedures, which shall include the following: (Ref: Para. A7-A8)

a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. (Ref: Para. A9)

c) Reading minutes, if any, of the meetings, of the entity’s owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)

d) Reading the entity’s latest subsequent interim financial statements, if any.
When, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.”

II. What are subsequent events and how should they be reflected in the financial statements?

SA 560, “Subsequent Events”, sets out the auditor’s responsibilities with respect to subsequent events. As per paragraph 2 of SA 560, there are generally two types of subsequent events:

a) Those that provide evidence of conditions that existed at the date of the financial statements.

b) Those that provide evidence of conditions that arose after the date of the financial statements.

As described in SA 560, many financial reporting frameworks refer to events that occur after the date of the financial statements as subsequent events. For example, Ind AS 10, “Events after the Reporting Period”, prescribes the treatment in the financial statements of transactions and events that occur between the date of the financial statements and the date when the financial statements are approved for issue.

Management is responsible for making adjustments or preparing relevant other disclosures in the financial statements, as appropriate, with regard to subsequent events in accordance with the applicable financial reporting framework. For example, the following definitions and resulting treatment in the financial statements are described in paragraphs 3, 8, 10 and 21 of Ind AS 10.
<table>
<thead>
<tr>
<th>Type of Subsequent Event</th>
<th>Definition</th>
<th>Impact on Financial Statements</th>
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<tbody>
<tr>
<td><strong>Adjusting events after the reporting period</strong></td>
<td>Events that provide evidence of conditions that existed at the end of the reporting period (i.e., at the date of the financial statements).</td>
<td><strong>Adjust</strong> the amounts recognized in the financial statements.</td>
</tr>
<tr>
<td><strong>Non-adjusting events after the reporting period</strong></td>
<td>Events that are indicative of conditions that arose after the reporting period (i.e., after the date of the financial statements).</td>
<td><strong>Disclose</strong> the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.</td>
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Therefore, entities need to evaluate all events that occurred after the date of the financial statements and assess, which of those events provide additional evidence of conditions that existed at the date of the financial statements and for which financial statements need to be adjusted; and the events which lead to disclosure only.

**Management’s Considerations When Assessing Events After the Date of the Financial Statements**

In complying with the applicable financial reporting framework, management exercises judgment in determining impact on the financial statements of any subsequent events related to the COVID-19 pandemic, taking into consideration the date of the financial statements, the facts and circumstances pertaining to the entity, and the conditions that existed at, or arose after, that date. As the impacts of the COVID-19 outbreak continue to evolve, including regulatory restrictions/conditions, capturing events that relate specifically to conditions that existed at the date of the financial statements, or after the date of the financial statements, will require careful assessment.
III. How are the auditor’s responsibilities in relation to obtaining sufficient appropriate audit evidence about subsequent events impacted by the COVID-19 pandemic?

SA 700(Revised), “Forming an Opinion and Reporting on Financial Statements” stipulates that the date of the auditor's report informs the user of the auditor's report that the auditor has considered the effects of events and transactions of which the auditor becomes aware and that occurred up to that date. Therefore, it is important for the auditor to obtain an understanding of subsequent events and how these have been dealt with in the financial statements.

Auditors are required to perform procedures designed to obtain sufficient appropriate audit evidence that all events requiring adjustment of, or disclosure in, the financial statements, occurring between the date of the financial statements and the date of the auditor’s report, have been identified and appropriately reflected in the financial statements in accordance with the applicable financial reporting framework (please refer paragraphs 6–8 of SA 560).

In undertaking work to be responsive to the auditor’s risk assessment pertaining to subsequent events, including reasons related to the impact of the COVID-19 pandemic, the auditor considers management’s adjustments or disclosures, including the timelines used to distinguish between adjusting and non-adjusting events. In addition, this includes the impact of the changes in the environment on the recognition and measurement of account balances and transactions in the financial statements (if adjusting), or other specific disclosures (if non-adjusting).

It is important to consider COVID-19 as a factor in an entity’s analysis of estimates required in the financial statements, including, but not limited to, estimates related to expected credit loss, inventory obsolescence, impairment analyses, variable and contingent compensation etc. Therefore, judgment needs to be applied to determine whether the conditions existed at the date of the financial statements or not.
Examples of Events and Conditions that May be Relevant in the Current Environment

The following are examples of events or conditions that may be affected by, or exist as a result of, the COVID-19 pandemic, and which may be relevant for the auditor in determining whether subsequent events have occurred and, if applicable, have been appropriately reflected in the financial statements (also refer paragraphs A7–A10 of SA 560):

- New commitments, borrowings or guarantees that have been entered into as a result of the pandemic.
- Invocation of force majeure clause after the year-end by any party (e.g., supplier, customer etc.) thereby impacting the supply chain / availability of customers for the entity’s products.
- Recent or planned sales or acquisitions of assets as a result of the pandemic.
- Increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate that has been made or is planned.
- Expected credit loss provisioning – where there are customers in COVID-19 impacted countries and where they have filed for liquidation post the entity’s year-end will impact the collectability of the trade receivables.
- Probability of meeting performance vesting conditions under share-based payment arrangements and the appropriate accounting for modifications or settlements of such arrangements.
- Relief or economic stimulus payments provided by the government in the form of loans or grants. It is important to understand the nature of the stimulus, conditions to be complied by entities, etc. Many of the concessions have dates attached and entities need to be cognizant of those as they determine impact on the financial statements.
- Any developments regarding contingencies (for example, new contingent liabilities or circumstances affecting the evaluation of existing contingent liabilities, the ability to meet agreed-on performance targets for contingent consideration in business combination arrangements, etc.).

- Any unusual accounting adjustments that have been made or are contemplated, such as additional or revised closing entries.

- Any events that will bring into question the appropriateness of accounting policies and assumptions used in the financial statements (e.g. events call into question the validity of the going concern assumption, expected credit loss model, inventory obsolescence, useful lives of PPE etc.).

- Any events that are relevant to the measurement of estimates or provisions made in the financial statements. Examples include derivative and hedging considerations (e.g. where a forecast transaction is no longer highly probable), insurance claims (e.g. whether it is virtually certain that amounts are receivable under business interruption and/or other insurance and the potential disclosure of contingent assets), rebate arrangements with customers or suppliers, variable consideration, commission accruals, etc.).

- Any events that are relevant to the recoverability of assets, ongoing pertinence of business and valuation assumptions, valuation of plan assets.

- Modification of existing contractual arrangements (e.g. reduction or deferral of lease payments granted by a lessor to a lessee, modifications to debt terms, etc.).

- Tax considerations (e.g. impact of reduced flow of goods and services on transfer pricing agreements; recoverability of deferred tax assets).
- Employee termination benefits resulting from a workforce reduction (e.g. as a result of closure or reorganization of operations that occurred after the reporting date). This may be a contrary evidence in a situation where an entity is forecasting expansion in business in the subsequent year(s).

- Some industries are more impacted than others e.g. entities in the aviation sector (and therefore entities that are feeder industries to entities in the aviation sector), real estate, construction, retail, tourism, hospitality, transportation, financing, infrastructure sectors. In such industries, it is critical for management to assess the impact of events occurring after the balance sheet date on the financial statements.

- Impact on realizable values of inventory of a short-term nature in case of inability to sell the products during the period of lockdown.

- Dishonour of payments / EMI received from debtors / borrowers at a date later than 31st March 2020.

- Indications of impairment in the value of investments in companies whose businesses have been severely affected by the pandemic.

- Any other significant events which would raise doubts over the entity’s ability to continue as a going concern in accordance with SA 570(Revised), “Going Concern”.

**The Exercise of Professional Skepticism**

Management’s identification, determination and treatment of adjusting or non-adjusting events, as applicable, are likely to be more challenging due to the impact of COVID-19. Consequently, there may be a need for the auditor to design and perform enhanced or additional procedures.
The uncertainties and challenges associated with COVID-19, taking into account the facts and circumstances of the entity, are more likely to result in significant management judgments, requiring significant auditor judgments, which requires the auditor to exercise professional skepticism in undertaking work on subsequent events. Applying professional skepticism in this regard means questioning and considering the sufficiency and appropriateness of audit evidence that all material subsequent events (i.e., those requiring adjustment of, or disclosure in the financial statements) have been identified and are appropriately reflected in the financial statements in the light of the circumstances.

**Written Representations**

The auditor is required by paragraph 9 of SA 560 to request a written representation that all events occurring subsequent to the date of the financial statements, and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed. As per paragraph 13 of SA 580, “Written Representations”, written representations are required to be dated as near as practicable to the date of the auditor’s report, but not after that date.

**The Importance of Communication with Those Charged with Governance**

The COVID-19 pandemic has resulted in various challenging and complex areas related to financial reporting. Those charged with governance are likely to have increasingly important responsibilities in the entity’s financial reporting and other governance processes. For example, they may need to ensure that the entity adapts its design and maintenance of appropriate controls with regard to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The auditor’s ongoing and regular communication with those charged with governance, particularly in the period past the date of the financial statements, may assist with the auditor’s understanding of the changes being made to respond to the evolving environment and may help the auditor in assessing what procedures they need to undertake to gather sufficient appropriate audit evidence.
IV. Are audit procedures required if the events of the COVID-19 pandemic became known to the auditor after the date of the auditor’s report?

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor’s report (either before or after the date the financial statements are issued), unless a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend his report.

Paragraphs 10 to 17 of SA 560 address the auditor’s responsibilities when facts become known to the auditor after the date of the auditor's report.

V. How do the results of the auditor’s procedures on subsequent events impact the auditor’s report?

If, based on the results of the audit procedures performed, the auditor determines that the financial statements are materially misstated, or is unable to obtain sufficient appropriate audit evidence to determine whether the financial statements are materially misstated, a modification to the opinion in the auditor's report is required in accordance with paragraph 6 of SA 705(Revised), “Modifications to the Opinion in the Independent Auditor's Report”.

SA 560 provides detailed guidance with regard to amending the auditor's report or providing a new / amended auditor's report in certain specific situations. The members are required to refer and comply with such requirements, if applicable to the audit.

If the auditor is able to obtain sufficient appropriate audit evidence about subsequent events as required in terms of SA 560, he may or may not consider it appropriate to identify the subsequent event as a Key Audit Matter in accordance with paragraphs 9-10 of SA 701, “Communicating Key Audit Matters in the
Independent Auditor’s Report” or he may or may not determine it to be necessary to draw users’ attention to the subsequent event through inclusion of an Emphasis of Matter paragraph or Other Matter paragraph in accordance with paragraphs 8-11 of SA 706(Revised), “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”.

For detailed guidance on this aspect, please refer the guidance: “Auditor’s Reporting - Key Audit Considerations amid COVID-19” issued by the Auditing and Assurance Standards Board of ICAI on May 17, 2020.

(Website link: https://resource.cdn.icai.org/59546aasb48467.pdf)
# Appendix

## Relevant Definitions and Descriptions of Terms used in this Document
*(Taken from Definitions given in Paragraph 5 of SA 560)*

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Date of the financial statements</strong></td>
<td>The date of the end of the latest period covered by the financial statements.</td>
</tr>
<tr>
<td><strong>Date of approval of the financial statements</strong></td>
<td>The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.</td>
</tr>
<tr>
<td><strong>Date of the auditor’s report</strong></td>
<td>The date the auditor dates the report on the financial statements in accordance with SA 700(Revised). This date informs the users of the auditor’s report that the auditor has considered the effects of events and transactions of which the auditor became aware and that occurred up to that date [paragraph A58 of SA 700(Revised)].</td>
</tr>
<tr>
<td><strong>Date the financial statements are issued</strong></td>
<td>The date that the auditor’s report and audited financial statements are made available to third parties.</td>
</tr>
<tr>
<td><strong>Subsequent events</strong></td>
<td>Events occurring between the date of the financial statements and the date of the auditor’s report, and facts that become known to the auditor after the date of the auditor’s report.</td>
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