

Webinar Series – Practical Audit Quality Considerations for Auditing in the Pandemic Environment July 2020

International Federation of Accountants®

Webinar 2: Performing the Audit in the Pandemic Environment

Summary of Key Takeaways

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Introduction

The pandemic environment has led to measures such as social distancing which have changed the way that auditors and their clients perform their work. The environment is also significantly changing the economic realities for many entities and the change is continuing. Auditors need to be ready to react, while ensuring they maintain a commitment to audit quality and adherence to professional standards.

In the second of a three-part webinar series, IFAC convened a panel of audit experts to share their perspectives and practical insights on performing the audit in the pandemic environment.

This document provides a summary of key takeaways from the discussion. The full recording of the session can be accessed [here](#).

Audit Evidence

Restricted physical access to client sites is requiring auditors to design and perform alternative audit procedures to gather sufficient, appropriate audit evidence through remote access and greater reliance on technology. In doing so, the need to evaluate the sufficiency and appropriateness of audit evidence and to maintain professional skepticism is as high as it has ever been.

OBTAINING AUDIT EVIDENCE REMOTELY	
Challenges	Practical considerations
<p>Physical access to client documentation may not be possible. Auditors will need to design and perform alternative audit procedures to obtain sufficient, appropriate audit evidence remotely, while still meeting the requirements of auditing standards.</p>	<div style="display: flex; align-items: center;"> <div> <p>Deciding how to obtain audit evidence and the appropriateness of evidence will depend on the specific facts and circumstances of the audit, and the nature of specific risks identified.</p> <p>Alternative approaches may include:</p> <ul style="list-style-type: none"> • Gathering more electronic evidence or scanned documentation from the client or through electronic third-party confirmations. • Using technology to perform procedures like walkthroughs and testing of controls, via live screenshares and live videos. <p>The auditor must consider the reliability of audit evidence and it is important to obtain an understanding of the client’s processes and controls in place over its preparation. Auditors may also need to consider how it can be authenticated, and whether further corroborating evidence from internal and/or external sources may be required.</p> <p>If the auditor is unable to obtain sufficient appropriate audit evidence remotely, they may need to consider whether the audit report can be delayed, or where it cannot, the impact on the auditor’s report, including whether a modified opinion is needed.</p> <p>Performing an audit of a new client may be more challenging where auditors are not as familiar with client staff and have no prior understanding of the entity and its environment. Access to the information from the previous auditors may be useful to help in these circumstances but may also be difficult to obtain in some jurisdictions where access may not be easy, or in some cases even permitted.</p> </div> </div>

INVENTORY

Challenges

Clients may not be able to undertake a physical year-end inventory count, or even where they are able to, the auditor may not be able to attend in person.



Practical considerations

The facts and circumstances of each entity and audit need to be carefully considered before determining the best way to obtain sufficient appropriate audit evidence about the existence and condition of the inventory. For example, the risks of material misstatement due to error or fraud (including new pressures and opportunities), the effectiveness of the entity's internal controls and whether the auditor has other sources of evidence such as cycle counts attended during the period, among others.

The standards require the auditor to attend the entity's inventory count, but also contemplate rollback procedures in circumstances where the count may not be conducted and attended on the final day of the audit period. This may provide an opportunity for the inventory count to be delayed and attended by the auditor.

In some circumstances the auditor may be able to effectively observe the count remotely. Although there are many considerations, including entity-specific considerations, before concluding a remote observation will provide sufficient appropriate audit evidence, a few examples factors include whether:

- It is possible to set up a live feed and get a visual of the entire operation to effectively see how the count is undertaken
- There is someone independent of the entity's staff responsible for inventory who can operate the camera or other recording device
- Reconciliations and other documentation can be captured live, and the auditor can request boxes to be opened if there are queries
- Further evidence is required and available, for example results of previous perpetual or periodic inventory counts.

If the audit client cannot undertake an inventory count, the auditor will need to carefully consider and challenge how management has calculated its inventory figures. Again, the auditor will need to carefully consider the facts and circumstances and whether there are other means of obtaining sufficient appropriate audit evidence. Examples of alternative procedures could include testing inventory roll forwards, and inspection of post year-end inventory sales documentation of items acquired before year-end.

If the auditor is unable to obtain sufficient appropriate audit evidence about the existence and condition of inventory, they may need to consider whether the audit report can be delayed, or where it cannot, the impact on the auditor's report, including whether a modified opinion is needed.

DOCUMENTATION	
Challenges	Practical considerations
<p>Significant uncertainties and a rapidly changing environment are requiring management and the auditor to make more complex judgments. Properly documenting these is important.</p>	<p>More documentation of thought processes in areas of significant judgment may be required.</p> <p><i>“Management goes first”.</i></p> <p>The auditor needs to consider the reasonableness of management’s assessments in areas such as going concern and other accounting estimates. Applying professional skepticism to the judgments made and assumptions used by management is crucial.</p> <p>Both management and the auditor will need to base their decisions on known facts and circumstances at the time.</p> <p>Timely documentation is crucial in the current environment. Judgments may seem reasonable at a point in time, but not necessarily when considered in hindsight where circumstances have considerably changed. Clear documentation of professional judgments made by the auditor is important to explain the auditor’s rationale for judgments in the circumstances at the time they were made.</p>

Accounting Estimates

By their very nature accounting estimates involve subjective assumptions and measurement uncertainty and can involve complex processes and calculation methods. They impact many areas of the financial statements. In the current environment, it will likely be more difficult for management to determine assumptions, obtain data and develop estimates. This in turn makes auditing accounting estimates more challenging and the exercise of professional skepticism will be essential in considering and challenging management’s judgments and assumptions.

Challenges	Practical considerations
<p>Some entities may not have faced an environment of heightened estimation uncertainty like this before and may need to establish more robust approaches for calculating estimates. In turn, the auditor may need to perform additional procedures to assess whether the accounting estimates made by management and the related disclosures are reasonable in the context of the continually changing</p>	<p>Management needs to implement robust processes and controls around the calculation of accounting estimates. Historic approaches that entities have taken to data assumptions or methods may need to change. Assumptions such as projections of revenue or future cash flow may be difficult to make, and entities will need to apply a multiple scenario approach.</p> <p>Considerations for the auditor in auditing management’s estimates include:</p> <ul style="list-style-type: none"> • Ensuring early engagement with clients to understand how they are addressing challenges in developing accounting estimates, as well as ensuring clients are aware of the level of documentation they need to provide to the auditor. • Whether an additional auditor expert is needed, e.g. a valuation expert. The auditor also needs to be mindful that in light of the uncertain economic environment, experts may include more caveats in valuation reports.

Challenges	Practical considerations
<p>and uncertain economic environment.</p>	<ul style="list-style-type: none"> • Sense checking judgments as the audit progresses and revisiting risk assessment and responses where necessary. • Being alert to an increased risk of fraud or management bias, and the importance of maintaining professional skepticism and thoroughly stress testing management’s analysis and assumptions. • Assessing the extent of uncertainty in estimated values and whether there is a pervasive effect on the financial statements, that would require a modification to the audit report. • Assessing the transparency of management’s disclosures on the level of uncertainties. <p>For further guidance on auditing accounting estimates, see the IAASB Staff Audit Practice Alert: Auditing Accounting Estimates in the Current Evolving Environment Due to Covid-19</p>

Engagement Quality Reviews

Different firms will have different thresholds for requiring engagement quality reviews but given the complexity of the pandemic environment, the increased pressures and uncertainties, and a possible increase in situations where the auditor needs to consider modifications to the audit report, it is likely that more engagement quality reviews will be needed.

Challenges	Practical considerations
<p>The purpose of an engagement quality review has not changed, but the approach to the review may need to be different in a remote working environment.</p>	<p>Effective communication between the reviewer and the audit team is important to maintain virtually.</p> <p>Auditors are having to make more significant judgments than ever before throughout all stages of the audit, and the reviewer will need to undertake an objective evaluation of these.</p> <p>It may be beneficial to have the reviewer look at significant judgment areas sooner rather than later.</p> <p>A small or medium sized practice may need to engage with an external reviewer outside of their own practice.</p>

For further guidance on [Audit](#) and [Financial Reporting](#) considerations due to COVID-19, please refer to IFAC's dedicated webpages on both topics:



For further COVID-19 related guidance on audit and ethics from the standard-setting boards, please refer to their webpages:

IAASB: [Guidance for Auditors During the Coronavirus Pandemic](#)

IESBA: [COVID-19: Ethics & Independence Considerations](#)

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