

# IMPORTANT NOTICE

This material is not designed to be comprehensive or a complete summary of the issues – but to assist discussion, in as timely manner as possible, during these unique times – all in support of audit quality.

Consequently, limited aspects only of the international standards are covered.

The Forum of Firms offers this material as useful for audit firms of all sizes, in developing, enhancing, and evolving their responses at this challenging time – demonstrating an ongoing commitment to enhancing audit quality.

# Pandemic Planning – Practical Considerations Supporting Audit Quality

Katherine Schamerhorn – Grant Thornton International Ltd

Jamie Drummond – PKF International Limited

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# Pandemic Planning – Practical Considerations Supporting Audit Quality

## Participants

- **Katherine Schamerhorn** – Global Head, Service Line Methodology and Learning - Grant Thornton International Ltd
- **Jamie Drummond** – Director of Assurance – PKF International Limited

# Pandemic Planning – Practical Considerations Supporting Audit Quality

- Overriding objective is to perform a quality audit
- Need to consider impact on:
  - Profession
  - Network
  - Firm
  - Engagement

# Impact on the Profession

## Short Term

Meeting annual CPD requirements

Regulators – support for preparers with filing deadlines

Ability of firms to appropriately support the profession

## Long Term

Implications on implementation of ISQM 1 and 2, ISA 220, 315, 600

[Regulators could provide guidance / clarity on expectations on the audit response.]

[Standard setters could consider clarified guidance specific to CV-19]

# Impact on the Network Firm

## Short Term

Global inspection process

Global learning

International relationship check  
process

Managing cash flow

Communications on key messages

## Long Term



# Impact on the Firm

## Short Term

Internal inspection process

Resource management

Technology infrastructure

Managing current year new recruits

Managing cash flow

## Long Term



# Impact on Individual Engagements

## Audit Approach

### Key auditor's judgements

Reassess previous judgements made during earlier phases of the audit

Areas impacted could include

- Audit risks (identification and assessment)
- Materiality
- Need for EQCR
- Use of experts
- Communications with TCWG



# Impact on Individual Engagements

## Audit Approach

### Risk identification and assessment

Consider practicalities of obtaining necessary level of understanding

The auditor will need to determine how practicable it will be to obtain an appropriate level of understanding, and to perform evaluations relating to audit risk identification and assessment.

This may be particularly challenging for new clients or for existing clients who have undergone significant change since the prior audit.

# Impact on Individual Engagements

## Audit Approach

Potential limitations of scope (LoS)

Availability of audit evidence

Key areas to consider include:

- Access to books and records
- Attendance for inventory observation
- PP&E verification
- May need to consider alternative audit procedures
- Consider impact of LoS on audit opinion
- Consider whether engagement terms have been agreed

# Impact on Individual Engagements

## Audit Approach

### Quality of audit evidence

Impact to audit evidence from switching to a remote audit from a traditional on-site approach

- Reliability (consider source and nature of evidence)
- Completeness

### Inventory

Are there alternative procedures to attending physical inventory count? E.g. Substantive tests of detail (e.g. test sales after year-end) / Testing of other inventory controls / Use of Video or drones

# Impact on Individual Engagements

## Audit Approach

### Going concern

Going concern assessments will need to be continuously updated as Covid-19 circumstances evolve

- Design audit procedures appropriate to the circumstances
  - Consider updated business plans and revised assessment of availability of funding
- Audit going concern assessment should be current up to date of signing audit opinion
- COVID-19 being an event or condition

# Impact on Individual Engagements

## Audit Approach

### Valuation and measurement

Likely increased complexity to measure assets and liabilities whose values may be significantly affected by Covid-19.

Revenue recognition may be impacted too, e.g. costs to fulfil contracts and progress to satisfy performance obligations.

Areas impacted may include

- Inventory obsolescence
- Provisions for doubtful receivables
- Provisions for liabilities for claims / refunds
- Financial instruments
- Investments
- Pension assets and liabilities
- Deferred tax assets

# Impact on Individual Engagements

## Audit Approach

### Taxation

Added complexity from current circumstances

### Group audit considerations

### Subsequent events

There may be complexities for treatment of transactions that are unusual or one-off in nature, including application for tax relief.

- Component audits should be properly planned and conducted in response to the changed circumstances
- Impact on review of component auditor work papers, if necessary
- Design procedures which are appropriate to the current circumstances.
- Consider impact where client obtains extension to filing deadline.

# Impact on Individual Engagements

## Audit Approach

### Adjusting / non-adjusting events

Judgement may be required in determining whether or not the effects of Covid-19 represent an adjusting or non-adjusting event.

### Revenue – other items e.g. government grants / contingent assets

- May be situations where an entity applies for government support for lost earnings. Need to assess accounting treatment and presentation.
- Consider also increased levels of insurance claims at assess accuracy of accounting treatment.

# Impact on Individual Engagements

## Audit Approach

### Presentation and disclosure

Presentation and disclosures will need to be prepared to appropriately describe current circumstances, including sufficient description of relevant risks, estimates and judgements applied.

### Audit opinion

- Consider impact on Key Audit Matters
- Increased likelihood of some form of modification



# Impact on Individual Engagements

## Audit Approach

### Client acceptance / continuation

Continue reassess whether there is a change to the client's circumstances which may affect previous decisions on client acceptance / continuance.

### Initial audits

- Review of predecessor workpapers to obtain evidence over opening balance
- Obtaining a sufficient understanding of the entity to identify and assess risk of material misstatement

# Practicalities of Remote Audit Approach

## Audit evidence

Adopting a remote audit approach may affect timeliness of receipt of audit evidence

Consider timeliness of receiving audit evidence, including from external third parties, e.g:

- Bank confirmations
- Debtor / creditor confirmations
- Legal letters
- Expert's reports

May need to consider alternative procedures

# Practicalities of Remote Audit Approach

## Audit evidence

Electronic / digital evidence format of evidence

- Obtaining evidence in an electronic/digitized format may present new challenges to the auditor e.g:
  - Reliability of evidence – has it been manipulated? How can its authenticity be verified?
  - Security – does audit firm have a policy in place around security of client data, including GDPR risks?
  - Storage – increased volumes of electronic information may place a strain on laptops or servers

# Practicalities of Remote Audit Approach

## Project Management

Hold remote audit planning meetings within the audit team and with the client  
Prepare a communication plan

## Coaching and supervision

Ensure that the senior members of the audit team have developed an effective plan to provide an appropriate level of coaching and supervision to junior staff.

## Comms with Management & TCWG

Agree on appropriate alternative means of communication to those key client contacts that are typically met face-to-face.

# Practicalities of Remote Audit Approach

## New joiners

Ensure appropriate onboarding process for members of the audit team new to the firm.

## Learning and development

- Consider how to deliver remote training needs for audit staff.
- Prepare appropriate online training solutions addressing current circumstances.

## Remote working – well being

- Consider how to support staff well being, including support for those who are caring for others at home.

# Practicalities of Remote Audit Approach

## Filing deadlines

- Discuss with client the practicalities of achieving filing deadlines.
- Agree on changes to audit plan where deadlines have been extended.
- Consider impact from loan covenants to going concern status around missing or extending filing deadlines.

## AGMs

Agree with client on arrangements for the AGM.

# Impact on Other Assurance Services

## Audits of service organization

- Ability to complete control testing
- Electronic evidence
- Performing a remote audit

## Review engagements

- Going concern considerations
- Analytical procedures and comparability to prior year

# What can we do to help?

## Suggestions

- Weekly / biweekly calls with FoF/Founder/Non-founder firms to discuss on going issues
- Consistency of approach across profession
- Suggested publications
- Others?