



CORONAVIRUS (COVID-19): CONSIDERATIONS FOR GROUP AUDITORS

GUIDE

28 February 2020

This guide is designed for UK group auditors with component auditors based in China or other jurisdictions impacted by Coronavirus (COVID-19). It offers practical considerations in relation to the work of component auditors to address the requirements in ISAs (UK). It may also be relevant for group auditors in other jurisdictions with similar requirements.

The emergence and spread of the Coronavirus (COVID-19) has resulted in many businesses, including audit firms, restricting employee travel to China and other jurisdictions that have been particularly impacted. Many groups have components based in China or other impacted countries. Group auditors will need to consider the implications of these travel restrictions for their work.

ISA (UK) 600 includes a requirement for the group auditor to evaluate and review the work of the component auditor. If this is not possible, then the group auditor is required to undertake other measures, such as undertaking additional work, and inform the FRC. This requirement to inform the FRC is a 'UK-plus' to the standard, but other jurisdictions may have similar local requirements.

Many auditors have met this requirement in the past through local site visits to the component auditor team to review key audit working papers and attend closing meetings with local management. With travel restrictions in place, group auditors will need to consider whether alternative procedures can be put in place that still allow them to meet the requirements of ISA (UK) 600.

Group auditors may find the following considerations helpful:

- **Identify impacted audits.** December year-ends will need to be considered immediately, but should the restrictions continue, March 2020 year-ends are also likely to be affected.
- **Categorise audits:** Review the impacted components and determine whether they are immaterial, material but not significant, or material and significant for the group opinion. This will allow the group auditor to better understand the risk associated with each engagement.
- **Understand the impact on the component:** Consider to what extent the component's ability to prepare necessary information has been affected. Workforce shortages due to illness or travel restrictions could limit management's ability to provide supporting evidence. The group auditor may wish to discuss with management how the business has been impacted, and how management intends to obtain the information they need for the purpose of the preparation of the group financial statements.
- **Review the status of work:** Gain an understanding of what work has been performed to date, for example, as part of planning or interim audit work.
 - Consider whether the ability to gather evidence has been affected, for example, bank closures may result in an inability to confirm cash balances. This may have implications for the ability of the group auditor to form an opinion on the group accounts.
- **Discuss amending reporting timescales:** Where possible, a delay in the reporting timetable could allow for time for the spread of the virus to slow/stop, and for travel

restrictions to be eased or lifted. The group auditor will need to understand whether the reporting timetable has been set due to regulatory or other deadlines, such as reporting on covenants. If it reflects company preference only, a delay should be encouraged to allow local management and auditors time to recover from the disruption resulting from the virus. Office closures make it likely that work will be behind schedule in terms of original reporting deadlines.

- **Consider alternative activities to demonstrate the review and evaluation of the component team where originally a visit by the group auditor was planned:**

- Can data be shared cross-border, to allow for group auditor review? Could files be loaded into a cloud-based portal and a login provided to the group auditor? Local laws may restrict this in mainland China, although in other jurisdictions, such as Hong Kong, this may be easier. If in doubt, advice should be sought on any local legal restrictions.
- Can video calls and/or screen sharing software be used to talk through 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 was previously reviewed?
- Consider the past work of the component auditor – have there been significant errors or issues, or has work been to a high standard?
- Can a more detailed memorandum be provided to the component auditor on what work should be done for group reporting?
- What work can be done centrally by the group audit team? If finance systems are integrated, data may be accessible for group auditor review. Management may be able to provide information directly to the group 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.

- **Assess the results of alternative actions taken:** Consider whether alternative actions have allowed the requirements of ISA (UK) 600 to be met, in particular, has sufficient, appropriate audit evidence been obtained? Does the language in the audit report need to be amended if reporting under ISA (UK) 701, for example, on the scope of work undertaken and involvement with component audit teams? Even after undertaking these alternative actions, does the opinion need to be modified under ISA (UK) 705?

The Audit and Assurance Faculty has prepared **guides** which provide advice when preparing a modified audit opinion which may help. If in doubt, ICAEW members should contact the Technical Advisory service on +44 (0)1908 248 250 or e-mail technicalenquiries@icaew.com.

- **Consider wider implications for the audit report:**

- Assess whether the going concern basis is appropriate, and whether there are longer term risks to viability. These could come from increased risk to the supply chain or from a potential macro-economic downturn. Working capital could also come under pressure, for example, from customer delays in paying invoices due to workforce shortages. Companies with significant supplier and/or customer bases in the impacted countries are likely to be at particular risk. Could the impact require an emphasis of matter paragraph under ISA (UK) 706?
- Determine whether there are wider accounting effects, for example for companies with March 2020 year-ends, consider whether any operational closures may have resulted in a need to impair assets or write down inventory values.
- Review how management have disclosed the impact of the virus, for example in disclosures on the principal risks to their business. How are they providing updated

information to shareholders and monitoring the situation? The FRC has issued **guidance** to companies which auditors should consider.

The FRC has advised firms concerned about the impact in relation to ISA (UK) 600 to contact the FRC directly.

*Our thoughts are with everyone affected, particularly those in mainland China, at this challenging time. We encourage all parties to stay up to date with the **latest public health advice** issued by the Department of Health and Social Care.*

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