

# **AUDIT PRACTICE BULLETIN NO.1 OF 2020**

## **KEY AUDIT CONSIDERATIONS – COVID-19**

### **INTRODUCTION**

1. The COVID-19 outbreak in Singapore and across the globe has caused disruptions to business operations and challenges to how public accountants (PAs) conduct their audits.
2. The purpose of this Audit Practice Bulletin (“APB”) is to serve as a reminder to PAs as to the requirements of the auditing standards amidst performing the audits of financial statements in the current situation. PAs should continue to ensure compliance with the relevant auditing standards and ensure that high quality audits continue to be delivered.
3. There is no right or practical answer to address the challenges faced by the PAs but the key is - the auditing standards are principle based and do not set specific requirements on how PAs might obtain reasonable assurance that the financial statements are free from material misstatement. In response to these challenges, today, more than ever, PAs are starting to rely on technology in conducting their audits.
4. This APB will cover the following key areas of audit that may be impacted arising from the COVID-19 outbreak:
  - Identifying and Assessing the Risk of Material Misstatements and Materiality in Planning and Performing an Audit
  - The Auditor’s Responses to Assessed Risks
  - Audit Evidence
  - Group Audits
  - Subsequent Events
  - Going Concern
  - Forming an Opinion and Reporting on Financial Statements
  - Key Audit Matters
  - Internal Control Considerations
  - Impact from support measures by government
  - Communications with Those Charged with Governance
  - Quality Control of Audit Firms

**(a) IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENTS AND MATERIALITY IN PLANNING AND PERFORMING AN AUDIT [SSA 315 *Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and its Environment* and SSA 320 *Materiality in Planning and Performing an Audit*]**

5. The risk assessment process is continuous and iterative. In light of the economic effects of COVID-19, risks that the PA needs to consider and continuously update may include:
  - Risks of impairment of assets
  - Risks of breaches/modification in contracts and their impact
  - Risks of breaches in loan covenants
  - Going concern risks as a result of liquidity and working capital issues
  - Heightened fraud risks as internal controls may not be operating as planned or due to increased pressure on management
  - Increased risk of error as a result of changes in management's process, systems and controls in the present circumstances
6. In determining materiality, the PA should consider whether there were any non-standard items such as impairments, provision for staff retrenchment etc arising from the COVID-19 outbreak that were recorded in the entity's books which would impact the setting of materiality. In accordance with paragraph 10 of SSA 320, the PA should also consider if, in the specific circumstances of the entity, a separate materiality level or levels need to be determined and applied to the particular related classes of transactions, account balances or disclosures.
7. As the audit progresses, the PA should assess if the 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) needs to be revised as a result of change in circumstances that occurred during the audit, new information, or a change in the PA's understanding of the entity and its operations in accordance with paragraphs 12 and 13 of SSA 320.

**(b) THE AUDITOR'S RESPONSES TO ASSESSED RISKS [SSA 330 *The Auditor's Responses to Assessed Risks*]**

8. The completion of high-quality audits under current circumstances may require additional time and PA may face challenges in obtaining and evaluating the sufficiency and appropriateness of audit evidence which may be of a different nature or form from originally planned.
9. The planned audit approach may need to be revisited to take into account the impact of changes in the audit clients' operations and operating environment as illustrated in the following examples:
  - Where the internal controls that are relevant to the audits are not operating as planned (i.e. remote working arrangements may result in the controls not being

executed as designed), the PA may need to increase the extent of substantive testing as he is not able to place reliance on the controls.

- Where the attendance of physical inventory count as at balance sheet date is not possible due to travel restrictions imposed or non-accessibility of client's premises, the PA would need to plan and conduct alternative procedures. For further guidance on this, please refer to FAQ 7 of ISCA COVID-19 Technical FAQs.
- Where the financial statements closing process is delayed, the PA will need to assess whether additional audit procedures need to be performed on matters which had been previously concluded as there is a higher risk of potential misstatements in the financial statements.

10. Appropriate responses to COVID-19 issues will depend on each audit client's unique facts and circumstances, and if the response requires alternative forms of audit evidence, the PA needs to assess any risk on the quality and reliability of such evidence.
11. Where it is not possible to obtain sufficient appropriate audit evidence by performing alternative procedures, the PA should consider whether a modified opinion in the audit report is necessary.

### **(c) AUDIT EVIDENCE [SSA 500 *Audit Evidence*]**

12. Amidst the current COVID-19 outbreak, where the PA is performing the audits remotely, it is important that the PA and the professional staff remain alert as to the quality of audit evidence. The PA needs to ensure that sufficient appropriate audit evidence is obtained to reduce audit risk to an appropriately low level. Professional judgement is required in the gathering of evidence and in determining whether the evidence is reliable. For further guidance on this, please refer to FAQ 6 of ISCA COVID-19 Technical FAQs.
13. Due to office closures, there may be disruptions in obtaining hardcopy of confirmations (such as bank<sup>1</sup>, debtors and creditors) as audit evidence and the PA may consider sending electronic confirmations instead. However, the PA would need to ensure authenticity of the confirmations received by considering the need to perform additional procedures. For further guidance on this topic, please refer to ACRA's Audit Practice Bulletin No.1 of 2010 *External Confirmations*.
14. Whilst verbal confirmations are not the best source of audit evidence, during these times it may be the fastest way to obtain confirmation of account balances. In considering this procedure, the PA could first try and understand the best way to contact the debtors and/or creditors in the current environment. Upon obtaining the verbal confirmations, the PA may, depending on the circumstances, request the confirming parties to respond in writing to them (such as email) or seek other evidence

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<sup>1</sup> Please refer to FAQ 9 of ISCA COVID-19 Technical FAQs for guidance

to support the information in the verbal response. Verbal confirmations in itself would not suffice as sufficient appropriate audit evidence.

15. The current situation has resulted in many uncertainties in businesses, for example, declining sales, disrupted productions, distressed debtors to name a few and thus, the PA must place greater emphasis in obtaining sufficient appropriate audit evidence in areas involving significant accounting estimates and critical judgements, including but not limited to:

- Impairment of property, plant and equipment<sup>2</sup>
- Impairment of intangible assets<sup>2</sup>
- Impairment of investments
- Impairment of receivables (including provision for expected credit losses)
- Inventory obsolescence
- Provision for restructuring plans
- Provision for contractual penalties
- Provision for onerous contracts
- Fair value measurement

**(d) GROUP AUDITS [SSA 600 *Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)*]<sup>3</sup>**

16. In light of the travel restrictions imposed by various countries, the group auditor should consider how these would impact the sufficiency and appropriateness of audit evidence obtained from the component auditors so as to form a basis for the group audit opinion. In forming the group opinion, the group auditor would need to:

- Assess whether there are any procedures that can be performed at group level to gain assurance; and/or
- Consider alternative methods in performing the review, where it had been determined that it is necessary to review the component auditor's work papers but is unable to physically access the component auditor's work papers.

Any alternative methods of reviewing audit work papers will need to comply with the laws and regulations of the component auditor's jurisdiction. The group auditor may refer to AGS 12 Group Audits - Inaccessibility of Component Auditors' Work Papers and Other Considerations for further details.

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<sup>2</sup> Please refer to ACRA's Audit Practice Bulletin No. 2 of 2010 *Impairment of Non-Financial Assets* for further guidance

<sup>3</sup> Please also refer to ACRA's Audit Practice Bulletin No. 1 of 2015 *Audits of Group Financial Statements (Including the Work of Component Auditors)* for further guidance.<sup>4</sup> Please refer to ACRA's Audit Practice Bulletin No. 1 of 2009 and No.2 of 2011 *Audit Considerations In An Uncertain Economic Environment* for further guidance

17. If the group auditor is unable to obtain sufficient appropriate evidence arising from the challenges as a result of the current situation, the group auditor should consider if this is limitation on the scope of the audit.

**(e) SUBSEQUENT EVENTS [SSA 560 *Subsequent Events*]**

18. With reference to Singapore Financial Reporting Standard (“FRS”) 10 *Events after the Reporting Period*, the PA should assess if the impact arising from the COVID-19 outbreak requires adjustment or disclosure in the financial statements.
19. For most entities with 31 December 2019 financial reporting date, the COVID-19 outbreak would not be an adjusting event. However, this may not be the case for entities with financial reporting date after 31 December 2019. The PA needs to carefully assess the factors and circumstances in place to determine whether any adjustments are required. Please refer to FAQ 1 and FAQ 2 of ISCA COVID-19 Technical FAQs for further guidance.

**(f) GOING CONCERN [SSA 570 *Going Concern*]**

20. It is expected that the going concern assessment will be more challenging as companies cope with various issues such as significant declines in revenue, operating losses, delayed payments from debtors and difficulty in obtaining financing.
21. 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 balance sheet date.
22. In this current situation of uncertain economic environment<sup>4</sup> and its impact on the company’s future performance, the PA should exercise care and maintain professional skepticism in assessing the appropriateness of going concern assumption. The PA should robustly challenge management’s assumptions and assess whether sufficient appropriate audit evidence has been obtained to support the underlying assumptions.
23. The PA should consider both negative and positive factors arising from the COVID-19 situation in the going concern assessment. For details on what needs to be considered in the going concern assessment, please refer to FAQ 10 of ISCA COVID-19 Technical FAQs for further guidance.
24. The possible scenarios that the PA may face in the current situation include:
  - In the event the PA concludes that a material uncertainty on going concern exists but the use of going concern basis is appropriate, the PA should ensure that the

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<sup>4</sup> Please refer to ACRA’s Audit Practice Bulletin No. 1 of 2009 and No.2 of 2011 *Audit Considerations In An Uncertain Economic Environment* for further guidance

principal events or conditions that may cast significant doubt on the company's ability to continue as a going concern and management's plans to deal with these events or conditions are adequately disclosed in the financial statements. Where there is adequate disclosure about material uncertainty made in the financial statements, the PA shall express an unmodified opinion.

- Where the financial statements have been prepared using the going concern basis of accounting, but the PA had assessed the basis of accounting to be inappropriate, the PA shall express an adverse opinion.

For more details, please refer to FAQ 10 of ISCA COVID-19 Technical FAQs.

25. For going concern in "close-call" situations, the PA may refer to ACRA's Audit Practice Bulletin No. 2 of 2016 *The Enhanced Auditors Reporting Standards: Communicating Key Audit Matters And Addressing Going Concern in "Close-call" Situations*.

**(g) FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS [SSA 700  
*Forming an Opinion and Reporting on Financial Statements*]**

26. Going concern issues and the ability to obtain sufficient appropriate audit evidence in the current environment will have a significant bearing on the form of audit opinion issued.

27. In forming an opinion, the PA should ensure that issues arising from the COVID-19 outbreak have been sufficiently addressed. These would include, but not limited to, ensuring that:

- Appropriate changes have been reflected in the accounting estimates made by management for any uncertainties arising from the current situation;
- Impact of changes in laws or regulations have been accounted for in the financial statements
- Sufficient appropriate evidence with regards to the account captions in the financial statement or a significant component has been obtained in supporting the audit conclusions/opinions

28. Depending on circumstances, the PA may consider it necessary to draw users' attention to certain matter(s) or modify the opinion in the auditor's report.

29. Where there is a scope limitation, for example:

- If the PA is unable to obtain sufficient appropriate audit evidence relating to a material component audited by another component auditor (e.g. due to inability to review the audit work papers and perform alternative audit procedures) and the possible impact on the financial statements is both material and pervasive, the PA is required to disclaim the opinion.
- In the case of non-replies of confirmation, and where the PA is unable to obtain sufficient appropriate audit evidence through inspection of the audit client's records and the receipt of external confirmations is a key source of audit evidence,

the PA should consider expressing a qualified opinion where the impact is material but not pervasive.

30. The PA should remain alert given the heightened risk of misstatements in the current situation. PA would need to assess the impact of these misstatements, i.e. whether they are material and pervasive. If they are material, the PA is required to express a qualified opinion. However, if they are both material and pervasive, an adverse opinion would be required.

**(h) KEY AUDIT MATTERS [SSA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*]**

31. While the COVID-19 outbreak may not in itself be a key audit matter, it may however be a critical consideration for the PA to determine key audit matter(s), and how the key audit matters should be addressed in the audit.
32. The PA needs to assess the impact of the disruptions to the operations of the entity and whether the consequential impact on the financial statements would be a key audit matter. In addition, the PA needs to consider the area where the most significant audit effort was required and therefore include it as a key audit matter.

**(i) INTERNAL CONTROL CONSIDERATIONS**

33. The PA needs to assess how the current situation would impact the audit clients' internal controls. For example, in a situation where the audit clients' personnel need to work from home, this may result in the entities having to implement new internal controls or modify existing internal controls.
34. In addition, the PA needs to evaluate whether there are any controls that are not operating effectively as a result of the current situation and assess how these changes would impact the planned audit approach. Please refer to FAQ 13 of ISCA COVID-19 Technical FAQs for guidance on this topic.

**(j) IMPACT FROM SUPPORT MEASURES BY THE SINGAPORE GOVERNMENT**

35. As part of the Unity Budget and Resilience Budget<sup>5</sup> announced by the Singapore government to help Singapore weather the COVID-19 outbreak, qualifying non-residential properties will be granted property tax rebate for the period from 1 January 2020 to 31 December 2020. Landlords (lessors) are expected<sup>6</sup> to fully pass on the rebates to tenants (lessees) by reducing rentals to directly ease the cash flow and

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<sup>5</sup> Refer to [https://www.singaporebudget.gov.sg/budget\\_2020/budget-measures/stabilisation-and-support-package](https://www.singaporebudget.gov.sg/budget_2020/budget-measures/stabilisation-and-support-package) and [https://www.singaporebudget.gov.sg/docs/default-source/budget\\_2020/download/pdf/supplementary\\_annexb5.pdf](https://www.singaporebudget.gov.sg/docs/default-source/budget_2020/download/pdf/supplementary_annexb5.pdf)

<sup>6</sup> Legislation passed by Parliament on 7 April 2020 which mandated landlords to pass on the property tax rebates in full to their tenants with no conditions attached.

cost pressures faced by tenants (lessees).

36. In relation to the above, the PA should consider the specific facts and circumstances (i.e. from lessors and lessees perspective) and ensure that the impact is appropriately accounted<sup>7</sup> for and disclosed in the financial statements. Please refer to FRB 5 *COVID-19 Government Relief Measures: Accounting for Singapore property tax rebate from the perspective of the landlord and tenant* issued by ISCA for details.
37. To help companies retain their local employees during this period of economic uncertainty, the Jobs Support Scheme<sup>8</sup> (“JSS”) was also announced as part of the Unity Budget. The JSS was enhanced subsequently in the two supplementary budgets (the Resilience Budget and the Solidarity Budget) and the Multi-Ministry Taskforce on COVID-19 press conference<sup>9</sup>. The PA may refer to FRB 6 *COVID-19 Government Relief Measures: Accounting for the grant provided by the Singapore Government for wages paid to local employees under the Jobs Support Scheme* issued by ISCA for details to ensure that the JSS payouts receivables are appropriately accounted for in the financial statements.

#### **(k) COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE (“TCWG”)**

38. Close coordination between the PA and the TCWG are more crucial than ever in such challenging times. Whilst the focus will generally be on discussions with regards to significant judgements in impairment and going concern assessment, including their related disclosures, the PA should also engage TCWG on:
- Internal controls weaknesses identified during the audit
  - Any contentious issues and difficulties encountered during the audit which may cause delays in the completion of the audit. The PA and TCWG should therefore agree on a reasonable time frame to ensure audit quality is not compromised.
39. In the event that a modified opinion is proposed, the PA should explain to TCWG the implications of the report and consider whether other procedures could be undertaken at a future point in time which could mitigate the modification either fully or partly.

#### **(l) QUALITY CONTROL OF AUDIT FIRMS**

40. From a quality control perspective, audit firms may consider it necessary to modify

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<sup>7</sup> Refer to the requirements of FRS116 *Leases* and FRS20 *Accounting for Government Grant and Disclosure of Government Assistance*

<sup>8</sup> Details of the JSS on IRAS’ website:

<https://www.iras.gov.sg/irashome/Schemes/Businesses/Jobs-Support-Scheme--JSS-/>

<sup>9</sup> MOF press release on enhancement to JSS on 21 April 2020

[https://www.sgpc.gov.sg/sgpcmedia/media\\_releases/mof/press\\_release/P-20200421-1/attachment/Support%20Measures%20for%20Extended%20Circuit%20Breaker.pdf](https://www.sgpc.gov.sg/sgpcmedia/media_releases/mof/press_release/P-20200421-1/attachment/Support%20Measures%20for%20Extended%20Circuit%20Breaker.pdf)



or re-emphasize various policies in the following areas:

- Documentation and structure of the review process and access to information. Consider the possibility of having discussions virtually with the greater use of technology
- Requirements for mandatory consultations with suitably qualified individuals and scope of reviews by engagement quality reviewers/independent reviewers in areas where judgments and conclusions are most likely to be affected by COVID-19 issues

## **CONCLUSION**

41. This APB serves to remind the PAs of the audit areas that could potentially be impacted by the current COVID-19 outbreak. PAs would need to exercise vigilance, professional skepticism and judgement when performing the audit procedures to address the identified risk areas. Notwithstanding the challenges faced by the PAs in the current situation, the PAs should ensure that audit quality is not compromised. New challenges may continue to arise, and the PAs should continue to monitor the evolving situation and assess how these changes would impact the audit.

Note: Please note that the contents of this ACRA's Audit Practice Bulletins are provided for the guidance of PA to supplement prescribed professional standards and not intended to be all inclusive, and include criteria that ACRA considers in evaluating the work of PAs. They are not rules of ACRA and are not intended to serve as a substitute for the relevant auditing standards. The PAs must observe, maintain and apply the prescribed professional standards, methods, procedures and other requirements in carrying out the audits of financial statements.