

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

International Federation of Accountants®

Webinar 1: Planning the Audit in the Pandemic Environment *Summary of Key Takeaways*

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Introduction

The COVID-19 pandemic has far reaching implications, with many people still comprehending and adjusting both personally and professionally. For the audit profession, the increased complexities of financial statement reporting and related risks and uncertainties, coupled with a rapid shift to virtual business operations and controls, have significantly challenged the delivery of audit engagements and necessitated virtual audits. But while much has changed, the commitment to audit quality and professional standards has not. The auditing standards remain fit for purpose in a COVID-19 context, and in the current uncertain environment audit quality remains more important than ever. Supporting people wellness is also paramount as ultimately, high quality audits depend on high quality individuals working at their best.

In the first of a three-part webinar series, IFAC convened a panel of audit experts to share their perspectives and practical insights on planning the audit and ensuring people wellness 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 Approach – Audit Quality Challenges & Practical Considerations

Audit planning sets the foundation for the entire audit, both from the point of view of the auditor as well as the audit client. *“If you fail to plan an audit, then you plan to fail”*

NEW WAYS OF WORKING	
Challenges	Practical considerations
Quick shift to remote operations for both the audit team and audit clients has changed the logistics of obtaining information and audit evidence.	 Properly planning the audit has become so much more important, particularly as the entities operations and processes may have changed significantly since the prior year. Auditors need to consider alternative means of obtaining audit evidence as part of the planning process. An increase in documentation is likely, e.g. more documentation of thought processes in areas of significant judgement. More and multiple types of evidence may be required. Electronic evidence such as screenshots may not be sufficient without further verification or corroborating evidence. Clients may require guidance from the auditors on types of documentation and information needed.
Exercising professional skepticism can be more challenging in the absence of face to face interactions in person with an audit client.	 Observing reactions and body language in response to inquiries can be an effective way of exercising professional skepticism. Face to face interactions cannot be replaced by email correspondence alone. When responding to an email, clients have more time to think about and articulate their responses to queries. Emails may need to be followed up with live conversations, including using video where necessary. This is particularly important for challenging or contentious issues, e.g. fraud inquiries.
New ways of working for the International Audit and Assurance Standards Board (IAASB) focus on: <ol style="list-style-type: none"> Assisting – issuing timely staff alerts on emerging issues Adapting – reviewing workplans and timelines (including consultation periods and effective dates), and shifting the Board to virtual operations Coordinating – with key stakeholders including IFAC, national standard-setters and regulators 	

RISK IDENTIFICATION & INTERNAL CONTROLS

Challenges

Practical considerations

More frequent assessment of risk is needed.



Risk identification and assessments are iterative, but in such a rapidly changing and complex environment, re-assessment of risk is vital. Early and frequent communication with management and the audit committee is important.

The longer the audit takes, the more chance that new risks emerge, and facts and circumstances change, which will create additional audit work. Scheduling audits of groups or subsidiaries at the same time will be more efficient.

Changed client working practices and protocols, along with personal and/or organizational financial pressures could create both the opportunity and incentive for fraud.



Auditors should have heightened awareness of the possibility of fraud or error, with the importance of the exercise of professional skepticism top of mind when performing audit procedures. Auditors need to assess the changed control environment, including key controls such as segregation of duties or systems access that may be weakened in a virtual work environment. Carefully reviewing any government COVID-19 support packages, incentives or subsidies is important. Often these have eligibility requirements such as proof of decrease in revenue.

Auditing management's assessment of going concern may be more challenging due to significant areas of uncertainty.



Auditors need to think holistically about all the different ways to stress test a going concern analysis. Applying professional skepticism to the judgements and assumptions used by management is crucial, as well as ensuring sufficient appropriate audit evidence is obtained to support the auditor's conclusion on management's assessment. For more guidance on going concern, see the [IAASB Staff Practice Alert](#).

MATERIALITY

Challenges

Practical considerations

Previous benchmarks used for determining materiality may not be appropriate, particularly where operations and/or revenues have significantly changed pre and post-COVID.



Materiality assessments may need to be revised as the audit progresses – not just at the planning stage. Considerations in determining materiality could include:

- Whether the underlying business remains the same – any significant restructuring, end of business lines, or closures of office?
- Whether backward-looking or historical benchmarks are suitable or not.
- Profit vs revenue vs asset benchmark. If a change in benchmark results in a higher materiality, consider whether that is appropriate during this economic downturn.

Determining materiality requires professional judgement and it is important that the rationale is well documented.

ETHICS / INDEPENDENCE	
Challenges	Practical considerations
Maintaining confidentiality with teams working remotely from home.	➔ With audit teams unable to work at client sites, confidential information is often being sent via email to auditors working unsupervised from home. Practitioners should consider issuing guidance on maintaining confidentiality during a remote audit.
Clients under financial pressure not paying audit fees or seeking a reduced fee.	➔ Auditors may have to have difficult conversations with clients on audit fees. With the additional risks as a result of COVID-19, fee reduction could impact the audit.
Self-review threat as clients look to their auditors for guidance.	➔ Threats to independence need to be reassessed on a continual basis. If there is concern that independence has or could be compromised, talking through ethical dilemmas as they arise with other firm partners can be helpful.

People Wellness

Leadership priorities include:

- Setting tone at the top is and ensuring it flows through the organization
- Demonstrating compassion/empathy for staff and an understanding of personal circumstances
- Sharing personal insights and coping strategies
- Maintaining team connectiveness virtually, while also recognizing virtual fatigue/exhaustion
- Encouraging informal conversations and catch-ups
- Encouraging staff to take vacations or breaks from work, and maintaining clearer boundaries between work and home

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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