

Guidelines for an Audit during Extra-ordinary Circumstances, including Pandemic



Auditing Standards Board, Nepal

(Formed by Government of Nepal Under the Nepal Chartered Accountants Act, 1997)

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Foreword

There is widespread agreement among economists that Novel Coronavirus (COVID - 19) Pandemic is having greater negative impacts on economy, government activities, people and their livelihood and lifestyles. COVID - 19 is presenting unprecedented and paramount challenges to all organizations, mostly all sectors, across the nation and whole world. World economies are struggling with rising unemployment trends. There is downward trend in global stock exchange indexes including Nepal resulted losing huge amount of investment from capital market and now investors are shifting their investment priority. Many countries are at brink stage of recession due to hardest hit the travel, hospitality sectors and other industries.

It has forced entities to change their operating styles and individuals to modify their art of living. As the COVID - 19 has also created difficult working environment to all levels of accounting professionals, consultants and auditors as well. International Federation of Accountants (IFAC), International Auditing and Assurance Standards Board (IAASB) and its member bodies including The Institute of Chartered Accountants of Nepal (ICAN), Auditing Standards Board (AuSB) and Accounting Standards Board (ASB) of Nepal have also timely responded for preparation to work and deliver best professional services under the impact of COVID - 19 business environments by timely organizing Webinars at national and global level and also by issuing advisory note and guidance. COVID - 19 has also forced the auditors to perform the duties unusually during extraordinary situations and circumstances. AuSB has felt necessary and decided to provide appropriate guidelines to the auditors so as to cope up with changed circumstances for the purpose of performance of their duties, including possible changing nature of audit evidence practically available and related considerations to support the auditors for delivering high-quality assurance services.

AuSB has developed Audit Guidelines to support the auditors to discharge their duties in line with the requirement of the auditing standards in this difficult situation specifically during extra-ordinary environment in general. I am hopeful that this Audit Guidelines will be supportive and useful to the auditors for providing assurance services at different level of organizations size.

I, on behalf of AuSB acknowledge and express sincere thanks and gratitude to "Guidelines for an Audit during Extraordinary Circumstances, Including Pandemic" preparation task force Coordinator CA. Nanda Kishor Sharma, members CA. Sujana Kumar Kafle, CA. Laba Kumar Khatri, CA. Bikesh Madhikarmi and CA. Sunil Joshi. My deep appreciation to all the members of the AuSB and secretariat staff for their valuable dedication and hard work in bringing this document in very short period of time.

CA. Anup Kumar Shrestha
Chairman
Auditing Standards Board, Nepal

Introduction

About the Board

Auditing Standard Board (AuSB) has been constituted by the Government of Nepal on 26 Falgun 2059 corresponding to 10 March, 2003 under Nepal Chartered Accountants Act, 1997 (first amendment 2002). The AuSB consists of 7 members comprising a Chairman appointed by the Government of Nepal from Fellow Chartered Accountants and other members are representative of Ministry of Finance (MoF), representative of Office of the Auditor General (OAG), Three Chartered Accountants and one Registered Auditor nominated by the Government of Nepal on the recommendation of Institute of Chartered Accountants of Nepal (ICAN). The board has full discretion in developing and pursuing the technical agenda for setting Auditing Standards.

The Board (Sixth Term)

Chairman	: CA. Anup Kumar Shrestha
Member	: Mr. Bhimarjun Gyawali, Representative, Ministry of Finance (MoF)
Member	: Mr. Viveka Nand Ghimire, Representative, Office of the Auditor General (OAG)
Member	: CA. Binay Prakash Shrestha
Member	: CA. Ram Prabodh Shah
Member	: CA. Tek Nath Acharya
Member	: RA. Surya Prasad Adhikari

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Member	: CA. Sujan Kumar Kafle
Member	: CA. Laba Kumar Khatri
Member	: CA. Bikesh Madhikarmi
Member	: CA. Sunil Joshi

Secretariat

Administrative Officer	: Mr. Manoj Bhattarai
Account Assistant	: Mr. Jeevan Dahal

Abbreviation and Acronyms

APM	Audit Practice Manual
AuSB	Auditing Standards Board
EMI	Equal Monthly Installment
EOM	Emphasis of Matters
EQCR	Engagement Quality Control Reviewer
ET	Engagement Team
FRF	Financial Reporting Framework
GPFS	General Purpose Financial Statements
IAASB	International Auditing and Assurance Standards Board
IB	Insurance Board
ICAN	The Institute of Chartered Accountants of Nepal
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISA	International Standards on Auditing
KAM	Key Audit Matters
LFAR	Long Form Audit Report
NAS	Nepal Accounting Standards
NOCLAR	Non-compliance with Laws and Regulations
NRB	Nepal Rastra Bank
NSA	Nepal Standards on Auditing
NSQC	Nepal Standards on Quality Control
ROMM	Risk of Material Misstatement
SAAE	Sufficient Appropriate Audit Evidence
TCWG	Those Charged with Governance
VAT	Value Added Tax
WIP	Work in progress

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Guidelines for an Audit during Extra-ordinary Circumstances, including Pandemic

Background

Auditing during extra-ordinary situations¹ will carry unique and many more challenges, and in certain areas there may be heightened risks of material misstatement for the audit.

A statement from the International Federation of Accountants (IFAC) issued on June 3, 2020 states that all professional accountants need to be attuned to the heightened risk and continue to exercise high levels of diligence, integrity, and professional judgment during extra-ordinary circumstances, such as COVID-19 prevalence these days. Professional accountants -- whether serving as members of a board or audit committee, organizational leaders, preparers or auditors -- are critical to the financial reporting ecosystem and shall be ready to respond with utmost care and uplift the confidence bestowed on them.

It further states that in such a fast-changing and uncertain environment, responsible parties with their ultimate responsibility for preparing and overseeing financial reporting and communication, like Board, Those Charged with Governance (TCWG) and Management, are required to continually maintain an effective control environment, which will likely change or has changed as a result of adapting operating environments to remote working and other demands of the situations. Auditors, likewise, shall focus on the implications of any such changes to the control environment and any new or changed risks, and adapt their audit approaches accordingly to obtain sufficient appropriate audit evidence on which to base their opinions. And, it is their responsibility to continue to provide fair and reliable financial reporting and disclosures that appropriately incorporate their best judgments, estimates, and assessments as well as being alert to the increased risk of fraud and financial misrepresentation. Consistent with fraud risks, auditors shall also be aware of potential risks with respect to Non-compliance with Laws and Regulations (NOCLAR) that could materially affect the financial statements.

Recently, COVID-19 has created an unprecedented level of uncertainty about the economy, future earnings, continuity of the organisations, whether small or large, and measurement of many elements of the financial statements, such as prolonged shutdowns of businesses, restriction on travels and breakdown in supply and distribution chain. There will likely be substantial and multiple financial reporting implications² to be considered by preparers of financial statements for the purposes of reporting and their fair presentation and disclosure to be ensured by the auditors.

It goes without saying that auditors' actions today will have a significant impact on their reputation and standing tomorrow. This can only be attained by upholding the highest standards of professional and ethical conduct during such extra-ordinary situations like current COVID-19, and by challenging ourselves to exercise heightened diligence and being open and alert to further actions needed. This requires for greater engagement of and communication between preparers and auditors in assessing the impact early in the preparation timeframe and audit process, as there

¹ Extra-ordinary Situations are those situations where application of normal procedures becomes impracticable due to circumstances beyond ones' control, not merely difficult to perform, for examples an act of god, pandemic, war, blockade, strike, etc.

² Refer to " Implementation Guidelines for NFRS 2013 on Impacts of COVID-19" issued by ASB/July 2020 for details

are likely to be issues that have not been previously encountered that may adversely affect conduct of efficient and effective audits.

IFAC advises auditors to exercise significant professional judgment and professional skepticism and requires to remain focused on their ethical responsibilities and the public interest. It says that the International Auditing and Assurance Standards Board (IAASB)'s International Standards on Auditing (ISAs) are principles-based and continue to apply in full in conjunction with national legal and regulatory requirements. It further emphasize that the application of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards), including compliance with the fundamental principles (integrity, objectivity, professional competence and due care, confidentiality and professional behavior), is key to preservation and expansion of public trust in all auditors.

Objective and Scope

Recognizing greater levels of pressure and stress facing many professional accountants, including auditors, the Auditing Standards Board (AuSB) has developed this audit guidelines to assist auditors in their discharge of attest function during extra-ordinary circumstances, including current COVID-19 in compliance with Nepal Standards on Auditing (NSAs) by appropriately taking reference of the materials published by IFAC in its website dedicated to COVID-19³.

This guidelines covers main NSAs (version 2016-17) that are of particular significance during extra-ordinary circumstances that requires auditors to perform their duties with some modification so as to attain the basic objective of the auditing with same of level of assurances. This guideline shall be referred to by the auditor's carrying out audit in accordance with NSAs and reference to main NSAs is always advisable to comprehend requirements of those NSAs.

The following NSAs are covered in this guideline, which is an evolving document based on the ever-changing environment and volatility of the situations.

Topics	Coverage
TOPIC 1	Basic requirement for an audit during an extra-ordinary circumstance
	NSA 200: Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing
	NSA 220: Quality Control for an Audit of Financial Statements
	NSA 230: Audit Documentation
	NSA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
TOPIC 2	Special considerations for planning an audit
	NSA 300: Planning an Audit of Financial Statements
	NSA 315: Identifying and Assessing the Risk of Material Misstatement through the Understanding the Entity and Its Environment
	NSA 320: Materiality in Planning and Performing an Audit
	NSA 330: The Auditor's Responses to Assessed Risks
TOPIC 3	Special consideration for collection of audit evidences
	NSA 500: Audit Evidence

³ <https://www.ifac.org/knowledge-gateway/discussion/covid-19-resources-ifacs-network>

	NSA 501: Audit Evidence - Specific Considerations for Selected Items
	NSA 505: External Confirmations
	NSA 510: Initial Audit Engagements - Opening Balances
	NSA 530: Audit Sampling
	NSA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
	NSA 560: Subsequent Events
	NSA 570: Going Concern
	NSA 580: Written Representations
TOPIC 4	Special considerations for Group Audit
	NSA 600: Special Considerations - Audit of Group Financial Statements (including the work of component Auditors)
TOPIC 5	Special considerations for reporting
	NSA 700: Forming an opinion and Reporting on Financial Statements
	NSA 701: Communicating Key Audit Matters in the Independent Auditor's Report
	NSA 705: Modifications to the Opinion in the Independent Auditors report
	NSA 706: Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors Report

Acknowledgement and Limitation

While developing this guidelines, due references have been made of the resource materials publicly available in the IFAC website (particularly COVID-19 resource portal) published till June 2020 and relevant provisions of the NSAs.

While there is no fit for one solution to the given circumstances and NSAs are based on principle, auditors are required to use best use of judgement and professional skepticism while planning, executing and reporting of an audit exercise. The issues or circumstances stated herein are only illustrative in nature and may not provide full guidance in one or more circumstances. Also, there may be a chance of inventing new approaches and procedures as situation evolves and becomes more certain. Thus, this guidelines needs to be suitably adapted to the circumstances faced or being faced by the auditors.

The auditors shall refer to Audit Practice Manual issued by ICAN for necessary forms and formats for ensuring audit in accordance with NSAs. However, additional forms and formats are provided in this guidelines, wherever there is need for such an additional guidance.

Topic 1: Basic requirement for an audit during an extra-ordinary circumstance

Introduction

The overall objective of conducting an audit of general purpose financial statements (GPFS) is whether the financial statements taken as whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether financial statements are prepared, in all material respect, in accordance with applicable financial reporting framework and to report on financial statements and communicate as per NSA. However, circumstances like this COVID-19 and its implication was not faced earlier at least when these I/NSAs were announced. So, to cope up with this type of extraordinary situation, both auditor and audit client shall be prepared for adopting new approaches and procedures, disclosures and even on enhanced reporting.

It is important that, situation like this COVID-19, where normal working environment is affected, auditing mechanism shall be changed accordingly. Considering the impracticable situation, observance of normal auditing procedures in compliance with all of the NSAs may not be possible. That is why all regulatory, accounting and auditing bodies are issuing practical guides to manage the impact of COVID-19. To maintain the overall objective, auditor shall ensure that they have appropriately skilled and highly professional staffs to match modified audit processes, regular review of work done by engagement team, appointment of Engagement Quality Control Reviewer (ECQR) and full cooperation and readiness from the audit client to support new and modified audit procedures.

It is equally important to the auditor that the firm's quality control mechanism is fully capable of providing support to perform audit in extra-ordinary circumstances and comply fully with the code of conduct. The auditor shall assess whether the client's management, including TCWG has taken appropriate steps to maintain efficacy of established controls, arrange to ensure compliance with laws and regulations, including statutory reporting, make an effort to fulfill all norms of corporate governance and test its business disaster recovery mechanism. The auditor shall give full attention of all these factors, including external factors that affect going concern ability of his/her client.

COVID-19 has also set the different working parameters all over the world. It has impacted all types of businesses of almost all sectors. The effect might have been for full year or part of it and it may not be possible to fully comprehend the impacts due to vulnerability and uncertainties. This type of situation may continue for more than one year. The situations that an auditor may come across is non-availability of hassle-free working environment, health related risks of all types employees, difficulty/prohibition in travel, timely completion of work assigned, difficulty in quality control review, supervision, consultation, etc. The ultimate impact of these types of constraints is about the availability of appropriate sufficient audit evidences to base their opinions on financial statements maintaining the public interest in a time like this is more demanding.

Documentation of audit evidence and conclusion among others is one of the bases from where the auditor can reach on conclusion about the achievement of overall objectives of the audit. Proper documentation also provides an evidence that the audit was performed on planned way in

accordance with NSAs and assures that applicable legal and regulatory requirements have been fulfilled. Requirement or sufficiency of audit evidence document is a matter of professional judgment. It is expected that, before giving reasonable assurances, the auditor shall be satisfied about the sufficiency and appropriateness of evidences supporting the assertions of all elements of the financial statements and conduct of audit, including quality control procedures. NSAs require an auditor to properly document why certain procedures could not be followed, what alternative procedures were followed and confirmation that the alternate procedures provides at-least same level of assurance that previously planned procedures would have attained. If audit documentation is not properly maintained, the audit loses the ground of its performances.

Application of nature, timing and extent of audit procedures that would have been applied in normal situation may not be practicable during the extraordinary circumstances, including COVID19. There are lots of problems in complying with all normal provisions of NSAs under extraordinary circumstances, including COVID-19 and hence the auditor shall use professional judgment to identify what best suits the purpose and apply cautiously. While doing so, the auditor shall agree with management/TCWG of different scenario and modus operandi, engage in timely communication and maintain appropriate documentation without diminishing the core values of NSAs.

Standards covered under this topic are:

NSA no.	Title
200	Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing
220	Quality Control for an Audit of Financial Statements
230	Audit Documentation
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

1.1 NSA 200: Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing

Requirements of the Standard

Para Ref.	Requirements
	While conducting audit of financial statement, auditor shall:
14	Comply with all relevant ethical requirement
15	Plan and perform audit with professional skepticism
16	Exercise professional judgement in planning and performing
17	Obtain sufficient appropriate audit evidence to reduce audit risk to acceptably lower level
18	Comply with all NSA relevant to audit unless
22(a)	Entire NSA is not relevant
22(b)	Requirement is not relevant because it is conditional and that condition does not exist
23	In exceptional circumstance, where it is necessary to depart from relevant requirement in NSA, alternative audit procedure to achieve aim of that requirement should be performed
20	Not represent compliance with NSA unless all requirement of all NSA relevant to audit has been complied
24	If objective of NSA cannot be achieved, evaluation whether this prevent auditor to achieve overall objectives should be done, requiring auditor to: <ul style="list-style-type: none"> • Withdraw • Modify auditor's opinion

Description of relevant requirements applicable for extra-ordinary circumstances

NSA 200 deals with the overall objectives of the auditor in conducting an audit of the financial statements, including to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. It requires the auditor to exercise professional judgment in planning and performing an audit, and to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. In the extra-ordinary circumstances, both of these concepts in an audit play a fundamental role, and the documentation thereof is critical, in particular as circumstances continue to change and there is uncertainty of the future prospects. Auditors shall exhibit their ability to demonstrate professional judgment in determining how to appropriately reflect the effects of extra-ordinary circumstances, like COVID-19 on the business and the audit in the auditor's report. In addition, application of normal procedures mentioned in the NSAs may not be possible in extraordinary circumstances because of lack of free access of desired documents, lack of unrestricted access to people and destination and collection of sufficient appropriate audit evidence to provide reasonable bases for auditors' conclusion.

There may be many areas impacted by extra-ordinary situation in respect of audit. Among them are issues related to independence of the auditor, having sufficient appropriate audit evidence and associated risks, use of professional skepticism and judgment and design and perform additional and alternate audit procedures, in many circumstances demanded by the particular situation, like remote audit and use of technology when there is travel restriction and health issue, so as to maintain same level of assurance in the public interest.

Ethical requirements are one of the core issues to be taken care by all professional accountants while discharging their duties and responsibilities under particular audit engagement. Handbook on Code of Ethics for Professional Accountants provides main ethical requirement for all professional engaged on profession either as member in practice or in service.

In the areas impacted by the extra-ordinary circumstances, like COVID-19, where significant judgment is involved will be considerably more challenging for auditors. In addition, auditor may seek support of experts where the audit team may not have the experience and competency in exercising professional judgement.

Alternative and additional audit procedures/considerations

In most of the extraordinary situations, collection of sufficient appropriate audit evidences to form reasonable assurance will be challenging and auditor can use technology to conduct the audit. This demands for specialized knowledge and skillful human and other resources and readiness on the part of the audit client. This may be one of the considerations for the auditor and TCWG/Management to enhance their digital capacity to perform the audit as per NSAs in an effective manner.

As explained above, in obtaining of sufficient appropriate audit evidences, to the extent possible, the auditor shall perform alternative audit procedures like digital platform to have audit evidence, regular meetings with management/TCWG and evaluating the business performances. However, use of technology may pose several limitations, including performing test of controls and assessing reliability of the evidences so collected. Hence, an auditor shall use professional judgment and skepticism throughout the audit to assess resulting impact on auditor's opinion. Benchmark set earlier for determination of materiality level and collection of audit evidence may not be appropriate under such situation. Thus, as alternative treatment, the auditor may need to reset, in short or medium term, the benchmark for assessment of materiality, procedures of collection of audit evidence etc. during planning and execution of the audit.

Further, the auditor shall always be assessing the impact and quality of audit evidences, perceived audit limitation (such as refusal by or inability of TCWG/management to provide certain information/confirmation) and results of evaluation and determine whether clean audit opinion can be issued or there is need for modification and situation that demands withdrawal from the assignment as such.

Also, the auditor shall always be aware of its responsibility towards ethical compliances and increased risks of regulatory compliances by the audit client. Applicability of the NSAs like NSA 230, 240, 315, 320, 500, 501, 505, 540, 560, 570, 580, 600, 700, 701, 705 and 706 may be hit by the extraordinary situation at varied levels. Thus, the auditor shall pay special attention to the requirements of these standards and elements of financial statements where significant judgments/estimates are made by the management/TCWG, including evaluation of going concern and impact of subsequent events.

Involvement of and communication with the Client (Management/TCWG)

As discussed above, audit in the extra-ordinary circumstances is not as same as in general condition and there is need of support from the management/TCWG. Thus, the auditor shall engage in enhanced communication with the management/TCWG during the whole process of audit and

financial report disclosures requirements. Use of alternative audit procedures like remote audit is only possible if audit client can manage the resources (like drones, cameras, internet, etc.), provide access to their system, access of audit evidences, and contact with responsible staffs (including legal advisors, outsourced parties, etc.) for virtual meetings and obtaining of their written confirmation related to certain assertions. The terms of audit engagement may need to be revised in terms of audit approach, audit evidence collection methods and so on depending upon the areas impacted by the existence of extra-ordinary circumstances. It must be made clear to the management/TCWG at the beginning of the audit that any material scope limitation including inadequate disclosures of the impact and uncertainties of the circumstances caused in the financial statements may lead to modification of audit opinion.

Illustrations/Case studies

1) Can professional Judgment and evaluation of audit evidence be affected by COVID-19?

Yes, under current situation, the auditor shall be so mindful while analyzing or evaluating audit evidence. There is huge gap between pre-pandemic era audit evidence collection and post-pandemic era. During extra-ordinary circumstances, most of the audit evidences are collected using different medium or platform, which is not similar to previous method of audit evidence collection. In such a situation, most of the audit firms are using digital media to collect the audit evidence and organizing various webinar to make communication to TCWG and management. The examples of audit evidence collection are scanned copy of original documents, where auditor needs to assess or perform additional audit procedures to establish the authenticity of the scanned copy obtained. To be sure about the sufficient appropriate audit evidence, the auditor shall apply best professional judgment and skepticism. That is why under the current circumstances of COVID-19, the auditor shall use his/her professional judgment and skepticism and way of audit evidence evaluation on different manner than normal one.

2. How Account Estimates change the scenario of financial performance and position of an entity?

Normally accounting estimates are made on set criteria as defined by standard accounting policies and rules. However, due to the impact of COVID-19, basis for estimates will be different than normal, as most of the entities might have faced many challenges and business performance might have been severely impacted. This may require additional disclosures of the uncertainties and assumptions made to arrive at some estimates.

NSA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosure requires auditors to obtain sufficient appropriate audit evidence on accounting estimates and the reasonableness of their disclosure, in accordance with the applicable financial reporting framework.

The uncertainty in light of COVID-19 creates challenges for management, and auditors are reminded that they shall remain skeptical when assessing management's judgments. Whether assumptions are appropriate in the circumstances and in the context of the applicable financial reporting framework, whether data being used by the entity is relevant and reliable etc. Some of the areas which are affected due to the COVID - 19 are:

- Impairment of assets
- Accounting for lease modifications
- Revenue recognition given collection concerns
- Return provisions for goods sales

- Onerous contracts
- Accounting for government assistance
- Actuarial estimates for business insurance and for investment performance,
- Held-for-sale assets (Current Assets)
- Recoverability of deferred tax assets

3. Will management be ready to carry out fair assessment of going concern status?

Although management may find it challenging for performing fair assessment of going concern assumption, it would be necessary to evaluate the sustainability of their business. Going concern is probably the most challenging area for both management and auditors because of the uncertainty caused by COVID-19. It is management's responsibility to assess whether the going concern basis for accounting is appropriate, and for auditors to obtain sufficient appropriate audit evidence and conclude on the appropriateness of management's evaluation of the going concern in the preparation of the financial statements. However, this does not necessarily mean that a material uncertainty automatically exists – the increased risk of significant doubt on an entity's ability to continue as a going concern will depend on the nature and circumstances of the entity, including the industry in which it operates.

COVID-19 creates significant uncertainty for the future of many businesses. It is expected that given the current uncertainty and volatility that more companies and auditors may need to consider reporting on material uncertainties. Some considerations for both companies and their auditors include:

- The company's liquidity over the duration of Covid-19 and after
- Any breach of financing terms
- Deferral of financing repayments, and
- The use of available government subsidies and other support

Whether the entity has revised business plans, auditors are also reminded that if based on their judgment, management's use of going concern basis of accounting in the preparation of the financial statements is inappropriate, they shall consider the implications on the auditor's report and/or the audit opinion.

Absence of an alternative plan amidst the disaster situation (such as disaster recovery plan) may trigger to modification of audit opinion.

4. Up to what extent modifications on audit opinion be made?

The uncertainty caused by COVID-19 and particularly the challenges that auditors are facing in obtaining sufficient appropriate audit evidence could result in modifications to the auditor's opinion. As per NSA 705, Modifications to the Opinion on the Independent Auditor's Report, there are three types of modified opinions:

- A qualified opinion
- An adverse opinion
- A disclaimer of opinion

As per paragraph 2 of NSA 705 the decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Thus, the auditor shall make an appropriate evaluation of the audit evidences obtained, conclusions derived and impact of the result on the overall presentation of the financial statements.

1.2 NSA 220: Quality control for an audit of financial statements

Requirements of the Standards

Para Ref.	Requirements
8	Responsibilities for overall quality of audit shall be taken by assigned engagement partner.
	Engagement partner shall throughout audit engagement:
9	Remain alert of non-compliance with relevant ethical requirement by team member
10	Determine appropriate action for non-compliance
11	Form conclusion of compliance of independence requirement by: <ul style="list-style-type: none"> • Obtaining information from firm • Identify and evaluate circumstances or relationships that create threat • Evaluation on identified breaches • Taking appropriate action (safeguards) to eliminate or reduce to acceptable level • Promptly report to firm the inability to resolve matter • Satisfy that appropriate procedure for acceptance and continuance have been followed • Information that will cause to decline engagement is obtained, promptly communicate to firm • Satisfy that engagement team, auditor's expert are competent and capable • Take responsibility of direction, supervision and performance with standards, legal requirement
16, A17, A18	Engagement partner should take responsibility for review being performed as per policies or procedures, ensuring that: <ul style="list-style-type: none"> • Work of less experience team member be reviewed by more experienced • Work has been performed as per standards and applicable legal requirement • Significant matters have been raised for further consideration • Appropriate consultation has been taken, documented and implemented • Need to revise nature, timing and extent of work • Evidence obtained is sufficient and appropriate to support auditor's report • Objective of engagement procedure have been achieved • Timely review at appropriate stage of engagement
17, 18	On or before date of auditor's report, engagement partner shall: <ul style="list-style-type: none"> • Review audit documentation • Discuss with engagement team • Satisfied that sufficient and appropriate audit evidence has been obtained • Satisfied that appropriate consultation has been taken during course of engagement
19	<ul style="list-style-type: none"> • For audit that requires quality control reviewer, engagement partner shall <ul style="list-style-type: none"> • Determine reviewer has been appointed • Discuss significant matters raised • Not date auditor's report until completion of review
22	Engagement team shall follow firm's policies and procedures to resolve difference in opinion
23	In monitoring process, engagement partner should consider <ul style="list-style-type: none"> • Result of firm's monitoring process • Consider deficiencies

	<ul style="list-style-type: none"> • Measures the firm has taken to rectify situation • Whether measures are sufficient
24-25	<p>The auditor shall include following documentation</p> <ul style="list-style-type: none"> • Issue related to ethics compliance and their resolution • Conclusion and compliance of independence requirement • Conclusion reached regarding acceptance and continuance of client relationship and audit engagement • Nature, scope and conclusion resulted from consultations <p>The engagement quality control reviewer shall document</p> <ul style="list-style-type: none"> • Procedure required by firm's policy for quality control review • Engagement quality control review has completed before auditor's report • Reviewer is not aware of any unresolved matters but ET reached on conclusion, which is not appropriate.
29	<ul style="list-style-type: none"> • The firm shall establish the policies that it has sufficient competent personnel • Assignment of engagement team
NSQC 13	<p>Applying and complying with relevant requirements</p> <ul style="list-style-type: none"> • Personnel of the firms are responsible for applying and complying the requirements • The firm shall comply with each provision of NSQC unless it is not relevant • Requirements are designed to enable the firm to achieve its objective

Description of relevant requirements applicable for extra-ordinary circumstances

One of the basic characteristics of the financial statements is that it shall be a qualitative one. However, due to pandemic and other extra-ordinary circumstances, it may not be possible to establish all types of quality parameters for financial statements. There may be a compulsion (due to pressure, opportunity, etc.) for compromising quality issue during such period. In Nepal, effects of COVID-19 has been experienced since the last quarter of financial year 2076/77 and the impact of such issues will be reflected on different financials to be published since first quarter of new financial year 2077/78.

The main hindrance to establish quality control will be due to the restriction on free movement of people and travel, meeting, etc. The situation may have direct impact on firm's capability (resources and expertise) to perform audit thereby acceptance of the assignment, fruitful consultation, supervision and EQCR. In addition, such situation may impose scope limitation due to restriction on access of documents and audit locations.

The quality of financial statements is under tremendous pressure especially due to uncertainty of the future outlook, management's judgement involving estimation, fair value and going concern that cannot be reliably verified and ascertaining adequacy of the disclosures of the impact, already or perceived) and the audit report (especially key audit matters and emphasis of matters). Further, the operation of audit firms are also severely impacted due to restriction on movement of staff, need for training in using technology in auditing and similar impact on experts services.

Alternative and additional audit procedures/considerations

One of the alternative ways of working for auditing firm and entity is a technology-based working environment. If this one stop-working environment is created using different media like Internet, purchasing web based software or Enterprise Resource Planning (ERP) and other electronic devices like scanner and computers are short-term solution for the auditor and the audit client. If possible,

for persons of auditing profession, software based auditing will be most effective from the point of view of timely completion, fear free and effective way of working. Depending on the severity of impacts and its nature, an auditor may choose suitable means to conduct the audit as a whole or part. However, the auditor shall always bear in mind that the new system comes with its own inherent limitations and risks. Until such risks are managed, only adoption of alternate audit procedures or techniques will not provide same level of assurance to the auditor.

Involvement of and communication with the Client (Management/TCWG)

This changed model of working shall initially be discussed at management level and if required (which may be necessitated as the audit client also needs to allocate resources to cope up with the changed audit requirements) with the TCWG. Change model of working on extraordinary circumstances, including COVID-19 may be needed for providing transport facilities to audit staffs, one stop working environment, web-based meeting, access to systems and providing copies of supporting documents, use of remote audit facilities (such as use of drone, hiring of independent authority to provide representation, etc.) and validity for audio and video recording of audit procedure performed. This type of working model shall be agreed on engagement level and promptly communicate to the management and TCWG. The auditor shall ensure that the Management/TCWG has committed and acted on those promises.

Illustrations/Case studies

1. Shall audit firms continue to train and conduct skill development activities of the employees as usual?

No. Regular physical training as practiced earlier shall be changed to web based training but in some location due to not-having Internet facility web based training is also not possible. So, in such a situation, the audit firm look for other means of providing training or hiring of trained human resources. Similarly, there may be an issue that the engagement partner may not be able to discuss with its own firm staffs freely and set the parameters for quality control as has been done in normal situation. The effect of this will be on supervision, monitoring and review as well. It is thus necessary for the auditor to keep this in mind while assigning audit jobs.

2. Will the Engagement Partner be available to supervise and review at site comfortably?

Normally, the engagement partner will be liable to supervise the work performed by its engagement team members. But in present COVID-19 situation it is not possible to supervise works performed on site. This may have direct impact on quality of the works done and ultimately the audit report. The audit firm may look for alternative way of supervising the work (use of technology, audit software, etc.).

3. How easily the EQCR be deployed?

Appointment of EQCR is one of the bases for ensuring quality of audit of financial statements. However, under the extraordinary situation, availability and willingness of person to work as EQCR may be a concern due to health and travel related issues.

4. Availability of engagement team or employees

During pandemic like COVID-19, it is very difficult to pursue staffs to get involved in audit. Also, all of the audit works cannot be done working from home model. So, during such situation, if there is no proper safeguards and precautionary measures taken, engagement of staff or team

is not possible. Also, staff hired on contractual basis to meet the requirement will pose other risks of their level of understanding and skills in conducting audit in an effective manner.

1.3 NSA 230: Audit Documentation

Requirements of the Standard

Para Ref.	Requirements
7	Audit documentation should: Be prepared on timely basis
8, 9	Be sufficient that experienced auditor, with no previous connection could understand: <ul style="list-style-type: none"> - Nature, timing, extent of audit procedure performed - Result of procedure - Audit evidence obtained - Significant matters raised, professional judgements, conclusion reached
10	Include discussion of significant matters (nature, when, whom the discussion took place) with management, TCWG
11	Include how auditor addresses inconsistencies in information identified
12	How alternative audit procedures has been performed, in exceptional circumstances where departure from NSA is judged as necessary and also: <ul style="list-style-type: none"> - Circumstances encountered - New/ additional audit procedures performed - Audit evidence obtained - Conclusion reached - Effect of it on auditor's report - Changes made, reviewed (who and when)
14	Assembly of final audit file should be done on a timely basis
15	<ul style="list-style-type: none"> • No deletion or discard after file completion
16	<ul style="list-style-type: none"> • When modification is necessary- <ul style="list-style-type: none"> - Modify with specific reason - Who and when modification made and reviewed

Description of relevant requirements applicable for extra-ordinary circumstances

Audit documentation on a timely fashion will help the auditor to provide evidence of nature, timing and extent of audit procedures performed, audit evidences obtained, quality control mechanism procedures adopted, significant judgements made, consultations held for contiguous matters, communication with the management/TCWG and conclusion reached.

Audit documentation has attained more importance in an audit during extra-ordinary circumstances due to the fact that there may be change in the form, content and nature of audit procedures performed than in a normal situation and significant judgements made by the auditor in making choice of audit procedures considering the risks associated. Also, the types and quality of audit evidences collected may differ compared to normal audit. Further, this area is heavily hit and affected by various measures imposed by the government. Remote access of different documents is prevalent during the extra-ordinary circumstances. One of the basic principles of audit to have unrestricted access of persons and financial records, including audit evidences has been changed to web based discussion and digital platform for accessing audit evidences.

NSA 230 acknowledges that there is a need for certain adjustment on documentation if any matters arise after the date of the auditor's report with performance of additional procedures to reach new

conclusion. On the same line, during extra-ordinary circumstances like pandemic, many matters may become clear during or after the reporting period, for instances, estimates, going concern assumption, bankruptcy of debtors and supplier etc. Thus, the auditor shall maintain adequate documentation in relation to his/her work regarding going concern assessment and events after reporting period, which are dealt with separately later. Assembly of audit file, which shall be done within 60 days from the date of auditor report, shall be given due attention by the auditor as this will only provide safeguards to the auditors to back up their work in accordance with the Standards and other regulatory requirements.

Alternative and additional audit procedures/considerations

Normally, a provision of current NSA has envisioned that assembling of physical documentation and data collection on digital form is possible but due to changed circumstances, most of the audit documentation will be on recording form. Meeting with client, verification of documents, observation, enquiry etc., through electronic media like live video, audio etc. shall also form part of audit documentation as stipulated on Para 12 of NSA 230.

Involvement of and communication with the Client (Management/TCWG)

Due to various factors originated from the extra-ordinary circumstances, the auditors may have to suitably adjust its approach, procedures and method of collecting audit evidences. Such modification may require full support from and involvement of the client management/TCWG. Thus, the auditor shall engage in communication with the management/TCWG in agreeing on form, content and nature of audit documentation. If there is a continuous audit system, there may arise a condition where audit documentation in the pre and during/post pandemic situations may be maintained in different ways. In addition to this, auditor shall communicate or agree with the management/TCWG the alternative audit procedures required to be performed during the pandemic like centralized system of audit rather than spreading way of working earlier, web based meeting for discussion of different issues rather than earlier physical meeting. Under these two situations form and content of audit documentation will be totally different.

Illustrations/Case studies

- **Are forms and content of documentation same as like pre- COVID-19 era?**
No. Form and content of audit evidence has widely been changed due to the pandemic. The auditor is compelled to rely on the scanned copy of evidences rather than original one. Web based information submission has been in increasing trend and use of emails, software based auditing is prevailing in the auditing system.
- **What types of additional audit documentation system are to be followed during pandemic?**
If auditor uses web or cloud based information sharing system, s/he has to develop further audit procedures for document transmission system and checking authenticity of document sources because there is a possibility of making alteration and/or issued without proper authorization. Also, if the auditor has to rely on document with digital signature, s/he has to develop a verification system for digital signature.

1.4 NSA 240: Auditors' responsibilities in relation to fraud in an audit of financial statements

Requirements of the Standards

Para Ref.	Requirements
4	Primary responsibility for prevention and detection of fraud is with TCWG and management
12	Auditor to maintain professional skepticism throughout audit
13	Auditor may accept records, documents as genuine, unless otherwise (investigate further)
14	Responses of management and TCWG are inconsistent, investigate inconsistencies
15	Discussion among team member emphasizing how and where financial statement may be suspected to material misstatement due to fraud
	Risk assessment procedures:
17	Inquiries of management about <ul style="list-style-type: none"> - Management assessment of Risk of Material Misstatement (ROMM) due to fraud - Management process of identifying, responding risk of fraud - Management communication to TCWG and employee
18,19,21	Inquiries of management and other (including internal function), TCWG of knowledge of actual, suspected, alleged fraud
20	Understanding how TCWG exercise oversight of management processes
22, 23	Evaluate whether unusual relationship in performing analytical procedure, other information may indicate ROMM due to fraud
24	Evaluate whether information obtained indicate fraud risk factors as- <ul style="list-style-type: none"> - Incentive or pressure - Opportunity - Rationalization of action
25	Identify and assess ROMM due to fraud at assertion and financial statement level
26	Presumption that risk of fraud is significant in revenue recognition
28	Determine overall response to address assessed ROMM due to fraud as: <ul style="list-style-type: none"> • Assign personnel with knowledge, skill, ability • Evaluate whether accounting policies applied indicate fraudulent financial reporting • Incorporate element of unpredictability in selecting nature, timing and extent of audit procedure
32	Audit procedure to assess risk or management override of control: <ul style="list-style-type: none"> • Testing appropriateness of journal entries, adjustment, general ledger • Review accounting estimates for biases • Evaluating business rationale for significant transactions outside normal course of business
34	Evaluate whether analytical procedure performed at near end of audit is in consistent with auditor's understanding of entity
35	Evaluate whether misstatement identified is indicative of fraud and if yes- Evaluate its implication with respect to reliability of management representation
36	If auditor believes misstatement as result of fraud, reevaluate- <ul style="list-style-type: none"> • Assessment of ROMM due to fraud • Impact on Nature, timing and extent of audit procedure

38	Inability to continue engagement due to identified or suspected fraud- <ul style="list-style-type: none"> • Determine requirement to report to authority • Withdrawal is possible under law
39	Obtain written representation from management, TCWG- <ul style="list-style-type: none"> • They acknowledge their responsibility for design, implement and maintain internal control • Have disclosed result of management's assessment of ROMM due to fraud • Disclosed auditor of any knowledge of actual, suspected, allegation of fraud
40, 41, 43	Auditor identifies or suspect fraud- Communicate on timely basis to <ul style="list-style-type: none"> - management or - TCWG or - Regulatory bodies
44-47	Documentation as follows: <ul style="list-style-type: none"> • Significant decision on discussion about susceptibility of financial statement to material misstatement due to fraud • Identified and assessed ROMM due to fraud at assertion and financial statement level • Overall responses to assessed risk, nature, extent and timing of procedures • Linkage of procedure with assessed risk • Result of procedures • Communication to management, TCWG, regulator, other about fraud • Auditor conclude presumption that risk on revenue as not applicable, reason for such conclusion

Description of relevant requirements applicable for extra-ordinary circumstances

It is believed that, at first instance, documents given to the auditor are reliable for expression of auditor's view. However, during the audit, if the auditor believes that documents given are not free from material misstatement due to fraud, then auditor shall formulate additional audit procedures to investigate further. That is why this NSA requires exercise of professional skepticism. The auditor shall always be alert and keep in mind to negate his queries. Sometimes it may happen that replies and representation given by management are inconsistent, for example in the case of loan loss provision of substandard loan and stock valuation. If such inconsistencies are found then the audit shall investigate further to have reasonable assurance. In this extraordinary situation we may face many challenges of fraud and misrepresentation from the management and/or TCWG. Thus, the auditor shall evaluate every case and develop further audit procedures to ensure the quality of financial statements.

The auditor shall always be alert and doubt in mind at any point of time while performing audit, i.e. remain skeptical throughout the audit. On every count of the audit, auditor shall set aside the previous track record of honesty and integrity of the management and/or TCWG.

Risk assessment is one of the important parts for the audit process. Under this, overall risk analyses of the organization's business environment and control mechanism are done. While assessing risk, communication with different layers of management and TCWG need to be done. Risk assessment process has been in fact increased during COVID-19 as compared to normal situation due to perceived risks of misstatement of financial statements. Due to COVID-19 situation, control

mechanism might have been deteriorated or not fully functional. Workings with fewer staffs and adoption of remote working modality might not have helped to implement control function of the organization as desired.

Responses for assessed risk are normally made from down to top approach. Inquiries made and result of such inquiries at low level of management level will normally be discussed with at least higher level of management and ultimately it goes up to TCWG and regulator as well. However, during extra-ordinary situation like COVID-19, working environment is totally different than normal one. Face-to-face conversation with paper-based recording has been changed to web based discussion and voice recording. Auditor shall be alert on this type of audit procedures while preparing final audit documentation.

Written representations are some of the important audit evidences to be obtained from the management. However, the auditor needs to cross-reference on fact submitted on representation letter to ensure that representations made are consistent.

Documentation of all correspondences, risk assessment procedures, communication process including web based communication with video or voice mode during extra-ordinary circumstances like COVID-19 need to be made properly.

Alternative and additional audit procedures/considerations

The mode of working and communication has been changed significantly due to COVID-19. Audit procedures, including risk assessment, communication and documentation system needs to be maintained properly. At engagement level, the auditor shall agree with management and TCWG about the changed style of working and results from such changed scenario shall be documented well in agreement with the management.

When fraud and/or material misstatement is detected, normally, further audit procedures shall be employed to nullify auditor's perception by assigning audit team to look after such observations. However, during extra-ordinary circumstances like COVID-19, if any fraud is detected, deployment of skilled professional staffs to look after such observation may be limited due to restriction of physical movement and personal health reason. The auditor shall assess the impact using best judgement.

In addition to above, while taking the overall responses from management and TCWG, there may be chances of override of control by TCWG. If such situation is encountered, the auditor shall develop further audit procedure to have reasonable assurance about the subject matter. Normally overriding of control will involve on segregation of duties, TCWG/Management interest on year-end adjustments, wrong accounting estimates, etc. Similarly, under the extra-ordinary situation, like COVID19 pandemic, there may be some interest of management or TCWG to have better disclosure of financial performance, both better and worse than previous year. Area of such interest may be calculation of loss caused by pandemic, accounting estimates, revenue recognition and expenses of various nature.

Once risk is assessed and responses are received from management, the auditor shall evaluate such audit evidences with other evidences obtained from different sources and shall reach on a conclusion. However, during extra-ordinary situation like COVID-19 pandemic, receiving the

documents/information in a timely fashion and its reliability is most important. If documents are not received on time, the auditor cannot assess the risk properly and addresses it.

When responses on assessed risk is not obtained in line with the perceived professional requirement, there may be a need for withdrawal from engagement. If so, the auditor shall comply with the legal requirements to withdraw from the engagement. There is greater possibility of withdrawal from engagement on COVID-19 situation if satisfactory representation is not received on accounting estimates, COVID loss, impairment loss and going concern assumptions or pervasive limitation on audit functions.

Involvement of and communication with the Client (Management/TCWG)

Normal matters are communicated as per the existing provision of NSA and in addition, matters changed due to COVID-19 as agreed shall be communicated to the management or TCWG like working from centralized place rather than visiting different branches, having scanned copy of audit evidence in lieu of original one, web-based meeting and recording of the same for audit evidence purpose are the some areas to be communicated to management and TCWG. Finally, the auditor shall communicate, either orally or in writing, all these unsolved matters to the TCWG for their information and making them aware of their implication on auditor's report. However, auditor shall be alert on TCWG involvement on management of the operation of the organization. If TCWG is involved in management, communication of different matters with TCWG will not be more effective. Under COVID-19 situation, the auditor shall verify the TCWG involvement on management and shall prepare his report. If there is question on integrity and honesty of TCWG, the auditor shall seek legal treatment over his findings as far as possible or form his own opinion based on impact assessment.

In some cases, there is a requirement of communicating to regulatory bodies also. In Nepal we are also bound to communicate to regulatory bodies like Nepal Rastra Bank (NRB) and Insurance Board (IB), at-least the regulatory reports like Long Form Audit Report (LFAR) in standard form and content. Before communicating with them, the auditor shall respect confidentiality of the information and adhere to principles of the code of ethics.

Illustrations/Case studies

- **Is withdrawal from engagement possible under COVID-19 situation?**

Under COVID-19 scenario, auditing adopting normal procedures may not be possible due to various restrictions imposed or health related issues or lack of preparedness on the part of the auditor and the audit client, pervasive scope limitation to obtain sufficient appropriate audit evidences, reliable basis for estimates, etc. In such a situation, the auditor shall assess impact of the situation to attain overall objective of audit and communicate with the management/TCWG for possible modification of audit opinion. If suitable audit opinion cannot be issued and auditor finds pervasive scope limitation, s/he may consider withdrawal from the engagement.

- **How management overrides the controls under the pandemic situation to achieve desired financial goal?**

In certain situation, the management may override control mechanism established by it like delegation of authorities to persons other than stipulated in the by-laws and rules, use of company assets without approval, charging of personal expenses, etc. Auditor shall verify the interference of TCWG in management activities (if any) and include such matter in the audit report. During COVID-19 situation also, management or TCWG may get involved on biased

accounting estimates, false assessment of going concern and subsequent events departing from the defined rules and procedures to have better performance to be disclosed to mislead the stakeholders.

- **Is Involvement of TCWG on management activities justifiable?**

This depends on the manner in which TCWG is getting involved in day-to-day management of the entity. Basically, TCWG shall be involved in policy making, overseeing the management's performance and take corrective action. However, in some cases member of the management can be the part of TCWG. In such a situation, the auditor shall assess whether proper check-and-balance system in operations and oversight function is maintained and TCWG is not unnecessarily interfering in day-to-day operation by providing undue pressure to increase the revenue in fake manner like treating advance against supply as revenue, inappropriate provision of guarantee or warranty, no adequate provision against loan loss to show higher profit or loss. TCWG involvement of policy corruption is very harmful, especially during extra-ordinary circumstance like COVID19 period and hence their involvement may not be justifiable at all.

Topic 2: Special considerations for planning an audit

Introduction

It is often said, “Well planned is half done”. The planning stage of an audit assignment is vital and, if completed effectively, shall ensure that the fieldwork stage is carried out efficiently with sufficient focus on higher risk areas. Planning is a continuous process that begins prior to the end of the client’s accounting period.

The auditors may not have previously factored in risks emanated or yet to be emerged from extra-ordinary circumstances like COVID-19 in their planning and audit strategies. The previous understanding of the entity and its environment, including the entity’s internal control, may have changed significantly. The uncertainty and unpredictability may create risks of material misstatement that are new or intensified. When planning the previous year’s audit, the auditors may not have considered these risks or may have considered identified risks differently. The disruption in business processes, unavailability of the company’s key personnel, incomplete or inaccessible data, together with the lack of adequate staff at auditor’s end would demand a revisit to the auditor’s audit approach and nature, extent, and timing of audit procedures. The previous professional judgments and materiality levels may not be relevant in the current scenario. For a new audit engagement, obtaining the understanding required for the audit planning seems to be more challenging due to the travel restriction, non-availability of concerned staffs and other safety measures.

It is so important for the auditors to use professional judgment and apply professional skepticism to determine whether the previous understanding and risk assessment still hold good. If not, then the auditor is required to consider whether alternate work is necessary and accordingly select and perform alternate/additional audit procedures.

Standards covered under this topic are:

NSA no.	Title
300	Planning an audit of financial statements
315	Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment
320	Materiality in Planning and Performing an Audit
330	The Auditors' Response to Assessed Risks

2.1 NSA 300: Planning an audit of financial statements

Requirements of the Standard

Para Ref	Requirements
5	<ul style="list-style-type: none"> • Involvement of Key Engagement Team Members in Audit Planning • Discussion among engagement team members
6	Perform the following preliminary engagement activities: - <ul style="list-style-type: none"> • Acceptance and Continuance of Client Relationships and Audit Engagements • Evaluating compliance with relevant ethical requirements including independence • Establishing an understanding of the terms of the engagement
7	Establish an overall audit strategy (scope, timing and direction of the audit)
9	Develop an audit plan which includes: <ul style="list-style-type: none"> ➤ Nature, timing, and extent of planned risk assessment procedures ➤ Nature, timing, and extent of planned audit procedures at the assertion level ➤ Other planned audit procedures
10	Update and change the overall audit strategy and the audit plan as necessary during the course of the audit
11	Plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work
13	Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements

Description of relevant requirements applicable for extraordinary circumstances

The engagement partner and other key members of the engagement team are expected to be involved in planning the audit and actively participate in the discussion among engagement team members.

The auditor is expected to develop a strategy for addressing potential audit risks and plan the intended course of nature, timing, and extent of procedures required to discharge the responsibilities. In order to make the right decisions, the auditor shall perform following preliminary engagement activities at the commencement of the current audit engagement to identify and evaluate events or circumstances that may adversely affect the auditor's ability to plan and perform the audit engagement:

- a) Performing procedures required by NSA 220 in relation to a continuance of the client relationship and the specific audit engagement
- b) Evaluating compliance with ethical requirements, including independence, as required by NSA 220
- c) Establishing an understanding of the terms of the engagement as required by NSA 210
- d) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements

The amendments to the overall audit strategy and plan (with consequential effect on nature, timing, and extent of further audit procedures) may be required on account of unanticipated events, changed conditions, inconsistent information, actual audit evidence being different from the expectation at the planning stage, etc.

Alternative and additional audit procedures/considerations

In special circumstances where there is a travel restriction, auditors shall make optimum use of the latest technologies like virtual platforms, cloud storage, etc. to hold the team discussion or share files necessary for the audit planning. Auditors also need to be more skeptical while performing preliminary audit engagement. For example, before accepting a new client/ engagement or continuing the existing client/ engagement, the auditor needs to consider the limitation created by the extra-ordinary situation which didn't exist till the previous year. The auditor shall reassess the competency of available resources including technological resources that will carry out the audit in an efficient manner complying with all the applicable auditing standards.

Auditors shall be able to revise their strategy and plan according to the fast-changing circumstances like we are facing at the current time amidst COVID-19. In order to tackle challenges in audit planning, auditors are advised to consider:

- a) Increasing the involvement of more senior or experienced members of the engagement team in performing procedures related to more complex issues
- b) Enhancing direction and supervision of less experienced team members; and modifying the nature and extent of review of their work
- c) Involving or increasing the involvement of specialists or others with specialized skills and knowledge
- d) Increasing the use of alternative communication technology such as virtual meeting platforms
- e) Working remotely demands more use of professional skepticism than before.

Involvement of and communication with the Client (Management/TCWG)

Once the planning has been completed key aspects of the planning shall be communicated to the management and TCWG. The following matters must be communicated to comply with NSA 260 'Communication with those Charged with Governance':

- The concept of materiality and how it will be used (NSA 260, para A13);
- The auditor's assessment of risk (NSA 260, para A13);
- The auditor's assessment of the control environment and whether any control testing is planned (NSA 260, para A13);
- The reliance, if any, on internal and other auditors (NSA 260, para A14);
- Matters required to be communicated as per the Handbook of The Code of Ethics For Professional Accountants issued by ICAN; and
- The format of the report to be produced (NSA 260, para A9).

To ensure this information is appropriately communicated in each period, a Planning Letter shall be sent (NSA 260, para 23). There is a suggested Pro-forma, which shall be tailored as necessary, in Appendix 1.20 of Audit Practice Manual issued by ICAN. The client shall be asked to contact the audit firm immediately if they are concerned about any issues raised in the planning letter. In the Letter of Representation, the client formally acknowledges receipt of this letter.

Illustrations/Case studies

Q1. One of my clients is requesting to reconsider the audit fees since their business has significantly disrupted. Can I accept the existing or new audit clients on lower audit fees?

In the extra-ordinary circumstances like COVID19, the auditor may face additional pressure to reduce the level of the audit fee for services in progress or to be provided. There may be threats to compliance with the fundamental principles of professional competence and due care if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price. The level of fees (or if they are overdue) might create a self-interest or intimidation threat to independence and auditors shall apply the conceptual framework to identify, evaluate and address such threats. In circumstances of fee pressure, auditors must pay particular attention to following 2 key considerations in complying with the fundamental principle of professional competence and due care:-

- i) Adequate time shall be planned and spent to enable the audit to be performed in accordance with applicable technical and professional standards; and
- ii) Audit personnel with sufficient expertise and experience shall be assigned in accordance with the nature, size and complexity of the audit engagement.

For example, when entities face economic difficulty, auditors may encounter more challenging audit areas that require additional work and more extensive exercise of professional judgment and greater skepticism. These areas may include, for example, assessing whether an entity is able to continue as a going concern, evaluation whether there are impairments in asset values. Changes in the entity's business may also give rise to more complex estimations and the need for additional work, time, and level of expertise, which will ultimately increase the cost of the auditor. So, in order to lower audit fees, an auditor needs to consider the ethical requirement laid out in Handbook of The Code of Ethics for Professional Accountants issued by ICAN. The most important message from this handbook is that the auditors shall perform high-quality audits regardless of the level of the audit fees. Further, there is no relaxation on the applicability of any of the auditing standards for the current situation of the pandemic but need for change in working modality necessitating additional investment in human and other logistics. Also, the auditor shall take into account cost reduction areas due to travel restriction, etc. and hence overall audit cost may ultimately come down by following risk based approach and one-work place audit.

Q2. How does remote auditing affect the audit planning meeting?

NSA 300 and NSA 315 requires the auditor to have regular interactions between audit team members including engagement partner at different stages of audit planning. Auditors shall take note that remote working does not excuse having required audit planning meetings. Auditors shall ensure they are still holding these discussions and having substantive discussions regarding risks of material misstatement with the engagement team prior to commencing audit fieldwork. There is no prohibition on conducting remote audit procedures, however, auditors shall be aware of its implications. This includes ensuring proper infrastructure is in place, the staffs are trained, and security and privacy are maintained. For example, when managing confidential client information, auditors shall ensure proper safeguards are in place to protect that information.

Appendices

For team discussion and briefing meeting Refer Appendix 1.19- Ac18 of APM issued by ICAN

2.2 NSA 315: Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment

Requirements of the Standard

Para Ref	Requirements
5	Perform risk assessment procedures
6	Risk assessment procedures includes: (a) Inquiries (b) Analytical procedures (c) Observation and inspection
9	Determine whether changes have occurred since the previous audit that may affect its relevance to the current audit
10	Discussion among engagement team members regarding susceptibility of the entity's financial statements to material misstatement
11	Understanding of the Entity and Its Environment
12	Understanding the Entity's Internal Control
13	<ul style="list-style-type: none"> Understanding of controls that are relevant to the audit Evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel
25	Identify and assess the risks of material misstatement at: (a) the financial statement level; and (b) the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures
27	Determine significant risk from identified risks
29	Obtain an understanding of the entity's controls, including control activities, relevant to the significant risk
30	Identify risks for which Substantive Procedures alone do not provide sufficient appropriate audit evidence (SAAE)
31	<ul style="list-style-type: none"> Revise Risk Assessment in the event of becoming aware of information during the audit Modify the further planned audit procedures accordingly

Description of relevant requirements applicable for extraordinary circumstances

The auditor is required to perform risk assessment procedures during audit planning stage. NSA 315 requires auditors to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

Risks of material misstatement can arise from a variety of sources, including external factors, such as conditions in the entity's industry and environment, and entity's specific factors, such as the nature of the entity, its activities, and internal control over financial reporting. Thus, the audit procedures that are necessary to identify and appropriately assess the risks of material misstatement include consideration of both external factors and entity-specific factors.

Even if there are no plans to rely on the operating effectiveness of controls, NSA315 still requires auditors to obtain an understanding of internal controls relevant to the audit and evaluate the effectiveness of their design and whether they have been implemented. NSA 315 also requires that the auditor obtains an understanding of the entity's controls, including control activities, relevant to all significant risks.

The risk assessment requirements for the auditor include incorporating knowledge obtained during past audits and interim reviews into the auditor's process for identifying risks of material misstatement. Risk identification and assessment is a compulsory process and also is an iterative and dynamic process. Auditors are required to revise risk assessments and modify responses and further audit procedures, based on audit evidence or new information obtained as a result of extra-ordinary circumstances. Throughout the engagement, auditors need to be constantly vigilant due to the fast-changing and complex circumstances as it may be necessary to revisit risk identification and assessment in the current circumstances. The auditor shall also take into consideration any preliminary assessment performed by management regarding the entity's ability to continue as a going concern due to economic impact (direct and/or indirect) of the extra-ordinary circumstances.

Alternative and additional audit procedures/considerations

In applying NSA 315, the auditor shall consider the implications of the special circumstances like COVID-19, when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks. For example, if the entity has a major operation in geographies that are significantly exposed to the outbreak, there may be an impact on the risk assessment. In addition, there could also be an impact on those entities whose customers/ vendors/ bankers/ suppliers/ service providers are in such geographies that are exposed. Based on the latest understanding of the entity and its environment, already identified risk may become more significant or additional risks of material misstatement may be identified that have not been previously recognized.

While the assessment of risks of material misstatement, including fraud risks, is required to continue throughout the audit, this may require more frequent consideration due to the rapidly changing COVID-19 environment. Throughout the year, external factors such as consumer behavior, market re-opening, Government safety measures, etc. may be unpredictable. Auditors may need to periodically update their understanding of management's process for identifying risks relevant to financial reporting objectives, including risks of material misstatement due to fraud ("fraud risks"). Accordingly, as part of audit planning, auditors may need to revisit their risk assessment procedure to consider the impact of the COVID-19 outbreak.

If an auditor's risk assessment is revised, the auditor is required to revisit the audit approach and nature, extent, and timing of audit procedures. In these circumstances, the auditors would be required to consider whether alternate work is necessary and accordingly select and perform alternate audit procedures.

Involvement of and communication with the Client (Management/TCWG)

Auditors shall discuss with TCWG and management whether the impact of the special circumstances like COVID-19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the business risks arising. Audit needs to evaluate the assessment by TCWG and management as to whether impact of special circumstances

like COVID-19 could be material. If TCWG and management have determined that there is no material financial impact (or reasonably expected impact) on their entity, auditors shall exercise professional skepticism when considering this assessment. Also, consider if there shall be disclosure in the financial report about the key assumptions made in reaching this conclusion.

Auditors shall discuss with management whether there has been any change to the systems of internal control as a result of changes to the entity's operations caused by the COVID-19 outbreak. They shall also evaluate how management is monitoring and assessing whether the system of internal control is still achieving the objective of reliable financial reporting. Auditors shall also remain alert to possible changes in controls while performing audit procedures.

Given the potential for evolving risks, more frequent engagement with the audit committee related to the auditor's risk assessment may be warranted. As part of the risk assessment process, auditors are required to inquire of various parties, including the audit committee, about risks of material misstatement.

Illustrations/Case studies

Q1. What are the new risks or matters that auditors need to consider because of the pandemic?

Auditors may need to consider new or different risks related to:

- Liquidity and working capital issue
- Ability to continue as a going concern
- Contractual non-compliance resulting in contractual breaches especially in debt covenant
- Non-compliance with laws and regulations
- Cybersecurity, including data security and data privacy in a virtual environment
- Changes in internal controls due to working in a virtual environment including information technology general controls
- Lapses on critical control that is relevant to the audit
- Controls are not operating effectively and efficiently (Difficulty in performing Test of control to check the same)
- The authenticity of audit evidence obtained remotely
- Asset and goodwill impairment
- Fair value and other accounting estimates
- Third-party vendor considerations (like outsourcing services, sub-contracting, etc.)
- Industry-specific regulatory and economic considerations, including concentration risk
- Geographic-specific regulatory and economic considerations, including concentration risk
- Business interruption

There are also likely to be new matters to audit as a result of the pandemic, for examples:-

- Salary and wage subsidies
- Other forms of Government financial relief
- Changes to employee terms, reduced or additional hours, etc.
- Insurance proceeds and compensations
- Rent relief, or other negotiated contractual delays or changes to contract terms
- Banking covenant or other funding waivers
- Increased and/or decreased cost of entity operations due to supply chain disruption
- Increased bad debts and contingent liabilities.

Q2. What shall auditors be thinking about a client's internal control with many audits taking place remotely due to travel restriction and physical distancing restrictions imposed by the Government?"

In an ever-changing and somewhat unstable environment, auditors shall inquire about any changes in the client system of internal control since the understanding obtained in last year's audit or interim period audit. In many cases, those controls may have changed dramatically, and procedures may have been changed to accommodate remote workforces and process flows. In such cases, auditors shall need to evaluate how much reliance can be placed on those controls that were only in effect for a portion of the year. If client sites are closed and auditors are unable to perform audits on-site, performing walkthroughs and certain tests of internal control will be challenging.

An understanding of internal control assists auditors in identifying types of potential misstatements and factors that may affect the risks of material misstatement and in designing the nature, timing, and extent of further audit procedures. Even when auditors have no plans to rely on the operating effectiveness of controls, auditors still are required to obtain an understanding of internal control relevant to audits and to determine that those controls have been placed in operation. Obtaining an understanding of controls may be achieved remotely; however, inquiry alone is not sufficient to determine whether such controls have been placed in operation. As such, auditors need to consider what evidence can be obtained remotely to determine if effectively designed controls have been placed in operation. If auditors are unable to obtain sufficient appropriate audit evidence to perform and complete the risk assessment process, then auditors may have scope limitations.

Q3. What could be the impact of COVID-19 on fraud risk?

Due to the COVID-19 pandemic, the probability of fraud risks may significantly increase. For example, companies may have laid off key personnel and workforces are not operating in their typical office environment, such that there could be a breakdown in internal controls that were operating effectively before the crisis. Changing incentives or increased pressures on management, especially when taken together with changes in internal controls or increased opportunity for management override of controls, may result in new risks of material misstatement due to fraud or changes to the auditor's previous assessment of risks of material misstatement due to fraud. When conducting inquiry regarding fraud risks, if such inquiries cannot be performed in person, video conferencing may be preferable to audio-only conferencing as auditors would be able to see body language.

Refer separate section on NSA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, for more guidance on fraud risk.

2.3 NSA 320: Materiality in Planning and Performing an Audit

Requirements of the Standard

Para ref.	Requirements
10	<ul style="list-style-type: none"> Determine materiality for the financial statements as a whole Determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures (if applicable)
11	Determine performance materiality
12	Revise materiality in the event of becoming aware of information during the audit
13	If the auditor concludes that a lower materiality than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

Description of relevant requirements applicable for extraordinary circumstances

When establishing the overall audit strategy, the auditor shall determine the materiality level that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Such materiality shall be determined for the financial statements as a whole and/or particular classes of transactions, account balances or disclosures. The auditor's determination of materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements. These judgments provide a basis for:

- Determining the nature, timing, and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures

Applying professional judgment, auditors need to determine materiality based on the benchmark such as profit before tax, revenue, gross profit, total equity, total assets, etc. The auditor shall use a benchmark as per the nature of the entity and the industry in which it operates and whether users focus on particular items in the financial statements. The auditor must be able to justify the chosen benchmark used as a starting point in determining materiality.

Generally, the audit materiality level is a certain percentage (threshold) of the appropriate benchmark. This threshold is determined using the professional judgment of auditors based on the result of the risk assessment procedure discussed in NSA 315. If the auditor revises the risk assessment as a result of new information during the audit, the materiality may also need to be revised as the audit progresses.

Alternative and additional audit procedures/considerations

The benchmarks and thresholds used in prior years for determining materiality may require reconsideration due to the impact of extra-ordinary circumstances. This could be owing to changes in users' expectations of materiality and changes in the company's financial position and performance (financial implications of COVID-19), compared to prior years. For example, there could be a COVID-19 impacted company, which in earlier periods was making consistent profits, but has incurred loss or has a significant profit decline, in the current period. Hence, the auditor shall consider if there is evidence that any other financial statement measure becomes more important

to the users of the financial statements, if so, the auditor needs to change the benchmark (the measurement basis) for materiality.

As a result of COVID-19, the auditor may determine that there are certain classes of transactions, account balances or disclosures for which users of financial statements could be reasonably expected to be influenced by a small change in the amount and/or disclosure. For such areas of sensitivity arising from the current market condition, the auditor shall consider lowering the testing threshold. For example, if certain financial statement line items are particularly important to a regulatory requirement or a debt covenant or accounts that may be subject to impairment. In setting up the materiality levels the auditor needs to consider whether it is appropriate to exclude the effects of items that are specific to the impact of COVID-19.

Further, if the risk assessment has been revised (under NSA 315), the audit materiality may also need to be revised. For example, if the last year's overall risk assessment was "Low" but due to the impact of COVID-19 on the control environment, the overall risk assessment of the same client for this year is "High", then the auditor shall consider lowering its materiality level accordingly.

Involvement of and communication with the Client (Management/TCWG)

Among other matters to be communicated to comply with NSA 260 'Communication with those Charged with Governance', the auditor shall communicate the concept of materiality and its application in the context of an audit and why the benchmark used for determining the materiality level has been changed this year owing the risks associated with extra-ordinary circumstances.

Illustrations/Case studies

Q1. Which benchmark will be appropriate for determining audit materiality at the current circumstances?

The auditors may be facing problems in determining appropriate materiality level due to significant adjustments incorporated in the current period financial statements. Where the auditor has previously been using profit before/after tax as a benchmark, the auditor may consider using:

- a) Normalized profit: Profit before tax adjusted for significant nonrecurring items
- b) Average profit: Average profit before tax of prior periods
- c) Other benchmarks: For example, though the scale of the company's business is largely the same but auditor may determine that adjusted profit may not be appropriate and consider using a different benchmark, such as total revenue, gross profit.
- d) Liquidity/solvency concerns: In circumstances when the company's operating results are so poor that liquidity or solvency is a more critical concern, basing overall materiality on financial position (e.g., equity) may be more appropriate.

Q2. What are the repercussions of a lower materiality level in the current audit?

There are higher chances of lower materiality level as compared to previous audits and some of the repercussions in the current audit are as follows:-

- i. New risk of material misstatement needs to be considered during the risk assessment
- ii. The extent of testing increases eventually increasing the number of audit samples
- iii. Additional areas (class of transaction, account balance and disclosures) needs to be considered in detail
- iv. Probability of material misstatement is high and can have an impact on forming an audit opinion and reporting

- v. Consideration will also be needed about the impact of previously unadjusted differences which may now become material and need to be adjusted for.

If the auditor concludes that lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality and whether the nature, timing, and extent of the further audit procedures remain appropriate.

Q3. What can be the other circumstances which require modification of audit materiality?

Circumstances (other than the special case such as pandemic), that may mean that the materiality calculation is modified for some items or the financial statements as a whole include:

- i. A change in accounting policy or a departure from a treatment normally required.
- ii. The business being investigated for the potential purchase.
- iii. Where small changes in figures may cause bank covenants to be breached.
- iv. Where the going concern basis may be inappropriate.
- v. Critical changes (i.e. changing net assets to net liabilities, a profit to a loss and shareholders' funds to shareholders' deficit).
- vi. Specific terms of engagement imposing additional responsibilities, for example, looking for fraud or the requirement to report to a regulator. These may be strictly outside the scope of the audit but will affect materiality levels if the work is done along with the audit work.

Appendices

NSA 320 does not prescribe how to calculate materiality but Appendix 1.15 sets out a means of calculating materiality for the financial statements as a whole per ICAN Audit Practice Manual. It also sets out a means for calculating performance materiality for specific classes of transactions, account balances and disclosures.

This shall be well documented along with the rationale for such change.

2.4 NSA 330: The Auditor's Responses to assessed risks

Requirements of the Standard

Para ref	Requirements
5	Design and implement overall responses to address the assessed risks of material misstatement at the financial statement level
6	Design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.
8	Design and perform tests of controls to obtain SAAE if: <ul style="list-style-type: none"> - Plans to rely on the operating effectiveness of controls; or - Substantive Procedures alone do not provide SAAE
15	If plans to rely on controls over a significant risk, controls must be tested in the current period. Controls tested in the previous audit cannot be relied on.
18	Design and perform substantive procedures for each material class of transactions, account balance, and disclosure
19	Consider whether external confirmation procedures are to be performed as substantive audit procedures.
20	Substantive Procedures Related to the Financial Statement Closing Process
21	Substantive Procedures Responsive to Significant Risks
22	Timing of Substantive Procedures
23	Perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework
25-27	Evaluate the SAAEs

Description of relevant requirements applicable for extraordinary circumstances

NSA 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed at the assertion level in accordance with NSA 315. The auditor shall design further audit procedures whose **nature, extent and timing** shall be responsive to the assessed risks of material misstatement at the assertion level after due consideration to inherent risk as well as control risk, where applicable. The nature of an audit procedure refers to its purpose (that is, test of controls or substantive procedure) and its type (that is, inspection, observation, inquiry, confirmation, recalculation, re-performance, or analytical procedure). The timing of an audit procedure refers to when it is performed, or the period or date to which the audit evidence applies. The extent of an audit procedure refers to the quantity to be performed, for example, a sample size or the number of observations of a control activity.

In respect of some audit risks, the auditor may determine that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures, so controls testing is required by NSA 330. If the auditor plans to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period. For other than significant risk, auditor may plan to use audit evidence from a previous audit about the operating effectiveness of specific controls.

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate prior to the audit conclusion, whether the assessments of the risks of material misstatement at the assertion level remain appropriate.

Alternative and additional audit procedures/considerations

The auditor needs to appropriately respond to the new risk identified or intensified risk arising due to this special circumstance in order to bring the detection risk to an acceptable level. The current exceptional cases will necessitate auditors to consider if the design and implementation of their responses to the identified risks are still relevant or whether they need to be revised. Because of the lockdown and other safety measures, the auditor will face challenges in applying both the nature of audit procedure i.e. either test of control or substantive procedure. The auditor shall consider the appropriate nature of audit procedure that will enable to obtain SAEs in the current situation.

Some of the audit procedures need to be carried out at the specified time, for example, observing the physical verification of inventory needs to be performed at the last date of the financial year. But, due to the lockdown measures, the same may not be possible. So, the auditor needs to consider alternative audit procedures at the time of audit planning assuming the different case scenarios. In the case of inventory verification, the roll-back or roll-forward procedures shall be performed to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are recorded properly. Depending upon the audit materiality of the current audit and the audit strategy, the extent of audit procedure i.e. sample size needs to be determined and tested.

Involvement of and communication with the Client (Management/TCWG)

Among other required communications, auditors are required to communicate to the TCWG significant changes to the planned audit strategy or the significant risks initially identified, and the reasons for such changes. Auditor also needs to consider NSA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance, that deals with the auditor's responsibility of reporting relevant audit matters to those charged with governance (i.e. audit committee and board of directors), including details of control deficiencies observed during the audit.

Illustrations/Case studies

Q1: What if our client's controls were not functioning properly throughout the year?

Many organizations have now shifted from the office environment to remote working, and as financial reporting processes moved from in-person to virtual, the risk of breakdowns in internal control has significantly increased. Auditors are required to evaluate the design and implementation of controls relevant to the audit for each client. To determine whether a control is relevant to the audit, auditors shall exercise their professional judgment. Auditors shall consider what could go wrong from a financial reporting perspective and whether certain controls can mitigate those risks. The auditor may be required to conduct two evaluations of the design and implementation of relevant controls: one for controls that were in place before the pandemic and another for controls put in place after the pandemic commenced. This will depend upon the nature of the control and how the pandemic affected the client's operations. The auditor's evaluation of the design and implementation of relevant controls affects the rest of the audit. For example, an auditor may have historically placed reliance on the operating effectiveness of a given control.

If that control stopped operating during the pandemic, such an approach may no longer be possible and alternative substantive procedures may be required to be carried out. As COVID-19 may present an increased possibility of control deficiencies for this year-end audit, setting expectations with clients before the audit commences may be a practical first step.

Q2. What is the impact on my audit if I cannot access my client's site to perform walkthroughs and internal controls testing?

If restrictions on travel and visiting client sites means that controls testing cannot be performed as planned, auditors will need to reconsider the audit approach. Auditors need to determine what audit evidence can be obtained remotely that provides comfort that controls are designed in a way that would prevent or detect and correct material misstatements in a timely manner, and that they have been implemented and / or are operating effectively. It may be possible to employ the use of technology to observe controls being performed or inspect relevant supporting documentation (i.e. reconciliations) through video conferencing, scanned documents, sharing screens, etc. Data analytic procedures may also be utilized when performing controls testing. Auditors shall document how they gathered the evidence and their evaluation of the appropriateness of the evidence. Auditors shall consider the control environment when assessing the appropriateness of the source of audit evidence and the risk of manipulation.

Auditors may also need to re-assess the planned level of reliance on controls and perform more substantive testing to respond to the assessed risk of material misstatement. Where there have been changes to the systems of internal controls after the performance of planning and risk assessment procedures, the changes need to be understood and the impact on the audit approach assessed, including (but not limited to):

- The impact on the identified risks of material misstatement
- The planned level of reliance on internal controls
- Whether more substantive testing will be required as a result of less reliance on internal controls
- The timing of the performance of audit procedures i.e. a change in the control environment may mean that performing audit procedures at an interim date is not appropriate and audit procedures shall be performed at year-end (NSA 330 paragraph A2).

If auditors cannot adequately perform procedures required by NSAs this may result in a limitation of scope that requires a modification to the Auditors Report. For example, while using technology, the auditor shall assess whether the evidences obtained can be considered reliable, adequate and sufficient.

Appendices

Refer 1.12 Ac11 Narrative Inherent Risk Assessment of APM issued by ICAN.

Topic 3: Special Consideration for Collection of Audit Evidences

Introduction

There may be a situation that may result in many challenges for auditors in obtaining sufficient appropriate audit evidence (SAAE) during extra-ordinary circumstances. For example, travel restrictions may have impacted physical presence in attending the inventory counts or the ability to obtain original documents for verification to test controls or availability of staff for enquiry, etc. Similarly, the reliability of information to use as audit evidence is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.

It is so important for the auditors to use professional judgment and apply professional skepticism to determine whether the evidence obtained is appropriate, reliable and sufficient for the purpose for which it has been obtained (to support relevant audit assertions) and the procedures applied are appropriate to the circumstances.

Thus, in the extra-ordinary circumstances, obtaining audit evidences may be more challenging and there is a need to apply alternative and/or additional audit procedures than that may have previously been applied.

This topic covers following standards:

NSA No.	Title
NSA 500	Audit Evidence
NSA 501	Audit Evidence - Specific Consideration for Selected Items
NSA 505	External Confirmations
NSA 510	Initial Audit Engagements - Opening Balances
NSA 530	Audit Sampling
NSA 540	Auditing of Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
NSA 560	Subsequent Events
NSA 570	Going Concern
NSA 580	Written Representations

3.1 NSA 500: Audit Evidence

Requirements of the Standard

Para Ref	Requirements
6.	The auditor shall design and perform suitable audit procedures as per the circumstances for obtaining sufficient appropriate audit evidence
7.	When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as Audit Evidence.
11	If there is inconsistency in audit evidence obtained from one source with that of another source or the auditor has doubt over reliability of information, then auditor shall consider to resolve the matter by using prudence.

Description of relevant requirements applicable for extra-ordinary circumstances

NSA 500 specifies that the auditor shall obtain sufficient appropriate audit evidences for the purpose of expressing opinion on the financial statements. The audit procedures vary according to the circumstances. Due to the pandemic or similar extra-ordinary circumstances, it may not be possible for the auditor to apply audit procedures effectively as earlier normal circumstances and there is a chance that audit evidences may lack sufficiency & appropriateness due to which the auditor will have to consider appropriate alternative or additional procedures to obtain sufficient appropriate audit evidence.

It is thus relevant for the auditor to maintain a higher degree of professional skepticism especially for the transactions accounted during the period of extraordinary circumstances which may ultimately affect the overall status of Financial Statements. Also, the reliability of information to use as audit evidence on which to base the audit conclusion might have been influenced by the circumstances under which it is obtained, including the controls over its preparation and maintenance where affected due to extra-ordinary circumstances.

Alternative and additional audit procedures/considerations

Although the application material in NSA 500 has specified various audit procedures, the auditor will have to use the professional judgment for their application to particular areas. Especially the procedures like “Analytical Procedures” can help to identify the fluctuation in transactions during affected period. Other procedures to obtain audit evidences like inspection, observations, inquiry and external confirmation might have also been impacted due to various restrictions imposed by the conditions.

It is obvious that, in case of affected business, the volume of transaction during the affected period will have reduced significantly as compared to the normal business operations. The comparison of major items such as operational expenses (especially administrative ones), revenues, and purchases during the period can help the auditor to identify the manipulations made by the management. The variance identified can actually be a misstatement due to fraud or error or, it can be a genuine fluctuation because of the existing circumstances. However, the auditor shall consider the reliability and comparability of data used for analysis. If the auditor used averages of normal business period, it may not be suitable for analysis of the current affected period.

For client sites located in remote places, it may not be possible to travel in order to inspect the documents and records. If the information of such site is significant for the purpose of audit, it

would be appropriate to obtain the documents through electronic medium such as scanned copies. However, the reliability of documents sent through the electronic medium can be complemented through the cross verification of records i.e. applying additional audit procedures. For example, the scanned supplier's bill can be verified through external confirmation from the supplier & by tracing the payment in bank account or through the agreement, GRN etc. This would help to maintain sufficiency and appropriateness of evidences obtained.

For the test of controls, it is necessary to inspect the documents properly because the implemented internal controls might not be in operation during the affected period. For example, due to urgency of payment to supplier and lack of staff at the office, the owner of the business might have paid the amount in cash or the cheque might have been signed by the authorized person without observing the formalities such as recommendation from purchase department or accountant. There is also a chance that such payment is omitted in accounting system which may result in conflict in balances of the parties. For such situations, the auditor shall first assess the changed control mechanism adopted by the management due to extra-ordinary situations and check the documentation made by the relevant person, communication to the accounts department and also cash/ cheque records maintained with them.

Specific inquiries that can be considered for the transactions related to affected period are:

1. Why was the payment made in cash?
2. Is the receipt obtained from the party immediately?
3. Was the accounts department consulted before making the payment to ensure the actual liability?
4. Is the transaction appropriately recorded?

If the relevant internal controls are breached due to the affected period, the auditor shall consider the extent of substantive procedures to be performed.

Involvement of and communication with the Client (Management/TCWG)

The auditor shall make appropriate communication with the management/TCWG for changes in audit procedures or involvement of additional procedures. The Management/ TCWG shall be requested to make necessary arrangement for additional/ alternative procedures so that evidence can be obtained efficiently.

If the management/ TCWG imposes limitation on scope, the auditor shall consider the impact of the situation which may lead to modification to opinion or withdrawal from the engagement.

Illustrations/Case studies

1. Results of Analytical Procedures – Fluctuation/ Unusual Relationships

- a. **Revenue:** While applying the analytical procedures such as variation in sales may indicate the actual decline in sales due to affected situation or the client's inability to raise invoices. The auditor shall consider the controls over stock transfer and entries in stock register.
- b. **Administrative Expenses:** The salaries, rent, marketing expenses might be recorded in consistent manner as that of normal period, which might be indication of manipulation. The auditor shall enquire about the payment policy during the affected period as it is obvious that most organizations have made amendments in payment policy and employees have been either retrenched or the payment has been reduced during the period.

- c. **Marketing / Promotional Expenses:** Due to the suspension of business activity, it is likely that business promotion and marketing expenses are reduced significantly during the period. In such cases, the auditor shall enquire about such expenses booked during the period.

2. Inaccessibility at site locations

The staffs/ employees at remote locations may have left the organization or may not be able to attend the locations for providing evidences. In such circumstances, auditor shall use professional judgment to apply the alternative procedures such as examination of records obtained from the source from which the evidences are collected at site locations.

3. Regulatory Compliances

It will be relevant for the auditor to ensure that the auditee entity has complied properly with applicable laws such as Income Tax, VAT etc. The compliance shall be reflected properly in order to avoid fines, penalties and provisions. If there is violation, the auditor shall assess the impact on the Financial Statements.

4. Inconsistency in Audit Evidences

While obtaining the evidence from various sources, the inconsistency might be observed. For example, the auditee entity made the payment during the affected period but the other entity omitted to record the payment due to time lag during the period. The auditor shall inspect the ledgers for variation and inform the management/ TCWG accordingly.

If the inconsistency cannot be resolved even after performing alternative procedures, auditor shall have to consider the impact on his/her opinion.

3.2 NSA 501: Audit Evidence: Specific Consideration for Selected Items

Requirements of the Standard

Para Ref	Requirement
4	For material inventory, obtain SAAE regarding existence and condition of inventory by: <ul style="list-style-type: none"> Attendance at physical inventory counting, unless impracticable. Performing audit procedures over final inventory records, whether they accurately reflect actual inventory
5	If physical count is conducted other than date of financial statement- Perform additional procedures to obtain audit evidence about whether changes has been properly recorded
7	Impracticable to attend physical counting- Perform alternate audit procedures regarding existence and condition of inventory If not possible- modify opinion
8	If inventory under custody of 3rd party is material- <ul style="list-style-type: none"> Request confirmation from 3rd party (quantities and conditions) Perform inspection or other audit procedures, as appropriate
9	<ul style="list-style-type: none"> Identify litigation and claims giving rise to risk of material mis-statement (ROMM) by: Inquiry with management, other (example: in-house legal counsel) Reviewing minutes of meeting of TCWG Reviewing correspondence between entity and external legal counsel Reviewing legal expenses account Seek direct communication with entity's external legal counsel
11	Modify opinion when: <ul style="list-style-type: none"> Management refuses to give auditor permission to communicate with external legal counsel or such counsel refused/ is prohibited from responding and Auditor is unable to obtain SAAE by performing alternative audit procedures.
12	Request Written representation from management or TCWG of all known actual or possible litigation and claims relevant for financial statement (accounted/ disclosed)
13	Obtain SAAE regarding presentation and disclosure of segment information by- <ul style="list-style-type: none"> Obtaining understanding of method used to determine segment information Perform analytical or other procedures as appropriate

Description of relevant requirements applicable for extra-ordinary circumstances

In respect of special consideration for inventory, NSA 501 requires auditors to attend inventory counts where inventory is material, unless impractical, to provide audit evidence relating to existence and condition by evaluating management's instructions procedures for recording and controlling the results of physical inventory counting, observing the performance of management's count procedures, inspect the inventory, perform test counts and performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. Alternative procedures are otherwise required, and where a count is conducted at a date other than the year end, additional procedures are required to cover the intervening period.

Alternative and additional audit procedures/considerations

COVID-19 is likely to make attending inventory counts impractical for auditors due to government restrictions and concerns about the safety of audit and client staffs. Under such circumstances, inventory counts are likely to be delayed or cancelled. Even when they are performed, auditors may not be able, willing or permitted to attend. In these situations, auditors shall seek to perform alternative audit procedures. If this is not possible, there may be no alternative to a limitation of scope in the audit opinion.

In some cases, a disclaimer of the audit opinion may be necessary if the inability to obtain sufficient appropriate audit evidence means that the possible effects on the financial statements of undetected misstatements (if any) on the financial statements could be both material and pervasive. As under normal circumstances, it seems likely that qualifications arising from a limitation of scope of the audit are more likely to be issued than disclaimers of opinion, which are relatively rarely issued.

As provided in IFAC resource center, new technology, such as drones or remotely controlled robotics, might help with auditor's inventory testing in some cases, but the auditor shall consider any restrictions/safety issue on the use of such technology in close proximity to people. However, the auditor shall check whether the new technology can be used or not or specific approval is needed for its use. If auditor decides to use such technology after required approval, the auditor shall consider the following limitations:

- Who will be controlling the device(s), and how and where are the cameras directed? If the auditors are not in control, there is a risk that the video footage may be manipulated.
- How will auditor obtain evidence regarding completeness? Do cameras allow the auditor to see all of the inventory at any point in time? There is a risk that things are hidden out of frame or that items are moved in and out of frame.
- Can the condition of the inventory be assessed? If videos lack resolution, the auditor may not be able to see indications of damage. Video footage may not be appropriate for assessing the condition of all inventory.
- How will the auditor select samples for testing, and will the auditor increase their size to reflect the increased risk? If communicated prior to the count, this could allow for manipulation. Unpredictability, and only selecting on the call items to be counted, from both floor to sheet, and sheet to floor, will help to reduce this risk.
- Does auditor need to adjust auditor's sample sizes, given these issues?
- How experienced are auditor's staff who are involved with the count? Given the technology limitations, the auditor will likely want to use staff with prior experience of inventory counts. The auditor may also find it helpful to have more than one member of staff involved.

Depending on the nature of the inventory, virtual reviews may be inappropriate or unreliable. If alternative procedures cannot be performed, auditor may need to modify the audit opinion due to limitation in scope of audit. If certain types of inventory are more easily reviewed - such as finished goods rather than raw materials or WIP - comfort might be obtained in some cases on part of the inventory balance, with other procedures undertaken to test the remaining items. This is unlikely to constitute sufficient appropriate audit evidence in its own right and therefore, will most likely need to form part of a package of alternative procedures. Alternatively, if possible, consider doing a count at a later date and perform additional procedures to obtain audit evidence about whether

changes in inventory between the count date and the date of the financial statements are properly recorded.

The auditor shall understand and assess the risks of conducting inventory tests remotely for example use of network firm/auditor or an independent expert or third party. Processes shall be documented clearly on the audit file. There may be other relevant considerations. Each individual engagement will need to be assessed on a case by case basis to determine what more, if anything, may be appropriate. The auditor shall consider whether alternative procedures have fulfilled the requirements of NSA 501 and in particular whether sufficient appropriate evidence has been obtained. If, despite using alternative procedures, the requirements of NSA 501 are not met, the auditor will need to modify the audit opinion under NSA 705.

Involvement of and communication with the Client (Management/TCWG)

As discussed above, if the auditor decides to use alternate audit procedures, there is need to communicate the same to the client and their preparedness to facilitate alternate audit procedures as well as providing evidences for conducting additional procedures, if count is done at a different date. Even if the client management agrees to support alternative audit procedures, the auditor shall inform management that the remote review may not be sufficient by itself, depending upon the types and value of inventories and the limitations of the systems being used.

Illustrations/Case studies

1. In case of perpetual inventory system:

If auditor and management have tested the operation of perpetual counting and recording systems during the year, controls are found to be effective, and substantive tests have also been performed, only a limited level of testing may be required at the year end. The inability to attend a full or partial year end count will be less of an obstacle to obtaining sufficient appropriate audit evidence than would be the case were such a system not in place. However, auditor shall consider whether controls have been operating effectively and if controls reliance is appropriate. It is possible that staff absences or warehouse closures will have impacted how controls operate, making it inappropriate to rely on controls.

2. In case of the entity's inventories held by a third party who sends confirmations.

The auditor shall consider whether third party confirmations remain reliable. COVID-19 closures may impact the reliability of controls at such organisations due to staff absences or other issues. If controls are less reliable, the auditor may need to consider whether any of the additional alternative procedures mentioned previously are suitable for third party confirmations.

3. Can the statutory auditor rely on work done by client's internal auditors to attend on auditor's behalf?

When considering relying on work of internal auditors, the auditor shall consider:

- Are there any threats to the independence of the internal auditors, actual or perceived?
- Are the internal auditors competent to do this work? It is possible that staff absences will reduce their resources?
- How systematic and disciplined has their work been in the past? It may not be appropriate to rely on internal auditors in certain cases.

The auditor shall also consider the safety of those asked to work on auditor's behalf. If management are not already planning on sending internal audit staff to attend, it would not be appropriate for the auditor to ask them to attend in your absence.

3.3 NSA 505: External Confirmations

Requirement of the Standard

Para Ref	Requirements
7	Auditor has to determine the information to be confirmed and the party from whom the confirmation is to be obtained. Besides, the auditor has to design appropriate confirmation requests and follow up requests to obtain sufficient and appropriate evidence about the assertions being tested.
8	<ul style="list-style-type: none"> • If the management refuses to allow the auditor to send a confirmation request, auditor shall consider the reasonableness of such refusal and evaluate the implications of such refusal. • In Such circumstances of refusal by management, it would be relevant for the auditor to perform alternative procedures.
9	When the refusal is not reasonable, auditor shall communicate with TCWG.
10,11	If auditor has doubt over the reliability of response to confirmation request, it is recommended to obtain further evidence to resolve such doubts and auditor shall further evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.
12	When there is non-response of the confirmation sent, the auditor has to apply alternative audit procedures.

Description of relevant requirements applicable for extra-ordinary circumstances

NSA 505 requires the auditor to obtain external confirmations for enhancing the reliability of audit evidence. External confirmations are generally used to verify the account balances reflected in the financial statements. It is therefore relevant to select the confirming party who is aware about the information being confirmed. Auditor can send electronic confirmations for ease of communication. However, the auditor has to be alert about the authenticity of response received.

When designing the confirmation requests, the auditor shall consider the specific factors such as assertions being addressed, risk of material misstatements, prior experience on the audit and the ability of the intended confirming party to confirm or provide the requested information. Due to the affected situation, office operations might be suspended and the confirming parties might be working through virtual mode. In such circumstances, there may be lack of access to records and documents available at office premises for scrutiny and confirmations.

Therefore, auditor shall consider the impact of such situations and perform alternative audit procedures to obtain evidence regarding the reflected balances and transactions.

Alternative and additional audit procedures/considerations

When there is non-response to confirmation request or it is impracticable to obtain the confirmation because of the specified situation, the auditor shall consider appropriate alternative audit procedures to obtain reliable evidence.

The nature and extent of alternative audit procedures are affected by the account and assertion in question. When there is non- response, the auditor might have to modify the extent of planned

procedures in order to respond to an indication of previously unidentified risk of material misstatements.

Application and explanatory material in A 18 of NSA 505 has referred to some examples of alternative audit procedures for verification of accounts receivables and payables.

For accounts receivable balances- examining specific subsequent cash receipts, shipping documentation, and sales near the period end.

For accounts payable balances – examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes and sales returns.

If the auditor is unable to obtain appropriate response from the external parties or he is unable to obtain sufficient appropriate audit evidence even after performing alternative audit procedures, then auditor will have to determine whether modification to auditor's opinion is required.

Involvement of and communication with the Client (Management/TCWG)

When the auditor plans to perform alternative procedures, he shall communicate with management/ TCWG for making the arrangements to facilitate his procedures. The communication is also relevant as per NSA 260 when the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures.

Illustrations/Case studies

1. Exceptions in Information obtained

When the auditor finds that the information provided by external parties are inconsistent with accounts maintained or any other exceptions are identified, auditor shall reconsider the reliability of accounting records and also the reliability of confirmation obtained. Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements. When a misstatement is identified, the auditor is required by NSA 240 to evaluate whether such misstatement is indicative of fraud. However, all the exceptions may not be misstatements as such exceptions may arise due to errors or timing of communication.

2. Client Site being shut down/ Unavailability of staffs at site

If the client site has been shut down or the key employees have left the organization, the only way to obtain audit evidence regarding material balances is external confirmation. Again, when the party who is to be confirmed is also unavailable due to closure or suspension, then the auditor will have to communicate with Management/TCWG for alternatives to obtain evidence.

3. Scope Limitation

When the auditor is unable to obtain sufficient appropriate evidence through examination of books of accounts and auditor has to solely rely on the external confirmations then non receipt of confirmations may result in scope limitation. Auditor shall determine the implication of such limitation on scope of audit.

3.4 NSA 510: Initial Audit Engagements: Opening Balances

Requirement of the Standard

Para Ref	Requirements
5	The auditor shall read the most recent Financial Statements and previous years audit report for the information relevant to opening balances and disclosures.
6	<ul style="list-style-type: none"> The auditor shall obtain sufficient appropriate audit evidence regarding the appropriateness of opening balances i.e. whether or not they have been correctly brought forward. Wherever required, auditor shall perform specific audit procedures to obtain evidence regarding the opening balances.
7, 10, 11	<ul style="list-style-type: none"> When misstatement in opening balances is observed, auditor shall perform additional procedures to evaluate the effect of misstatement and its impact on current period's financial statements. The auditor shall also communicate to management / TCWG for the misstatements identified. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with NSA 705 (Revised) If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with NSA 705 (Revised).
8, 12	<ul style="list-style-type: none"> The auditor shall obtain sufficient appropriate audit evidence about whether Accounting Policies are consistently followed. If there has been any change in accounting policy, auditor shall ensure that the change is justifiable and has been properly disclosed and reflected in Financial Statements. If the accounting policies are not consistently applied or the changes have not been disclosed and accounted appropriately then auditor shall express a qualified opinion or an adverse opinion in accordance with NSA 705 (Revised).
9,13	If the previous year's auditor's report contained any modification, then auditor shall evaluate the effect of such modification on current period's financial statements. I.e. if the previous year's modification remains relevant and material then auditor shall modify his opinion on the current period's financial statements in accordance with NSA 705(Revised).

Description of relevant requirements applicable for extra-ordinary circumstances

NSA 510 is relevant when the previous year's financial statements were audited by another auditor or when the financial statements of the previous period were not audited at all. This standard is not applicable when the financial statements do not contain opening balances i.e. the entity is preparing the financial statements for the first time.

This NSA specifically requires the auditor to verify the appropriateness of opening balances, consistency of accounting policies adopted by the entity and also the impact of modification in previous year's audit report.

If the extra-ordinary circumstances occur during financial year, it is obvious that the financial transactions will be affected in one way or other due to adjustments. When the adjustments are made in the financial statements, there is a chance of misstatement or deviation from accounting estimates or policies made in normal course of business. If there is such deviation, it must be quantified and disclosed in the financial statements. The provisions of this standard can also be linked with NSA 501 with respect to verification of inventories. For example, there might be a situation where the auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory the possible effect of which are deemed to be material. In such circumstances, auditor will have to qualify his opinion.

Similarly, the auditor in the previous period might have reported the specific matters that give rise to modification. Such reporting might have been made because of the consequence of extra-ordinary circumstances such as unusual adjustments in receivable balances due to bankruptcy of debtor. Ultimately, the auditor in the current period shall have to obtain evidence for reasonableness of such adjustment and consider the impact in his opinion in the current period. If permitted, the auditor can review the working papers of predecessor auditor for the authenticity of opening balances.

Alternative and additional audit procedures/considerations

When the auditor obtains evidence regarding misstatement in the opening balances, the auditor shall perform appropriate additional procedures to determine the effect on the current period's financial statements. Such additional procedures might include examination of documents and records, inquiries with relevant authority within the entity or even the confirmations from the third parties who are associated with the misstated balances in the financial statements. For example, if the change in accounting policy has not been disclosed properly, the auditor shall enquire the reason for non-disclosure as it might be indication of risk of material misstatement. Non-disclosure might occur due to omission or intentional concealment. Similarly, in case of restatement of opening balances, the auditor shall examine the documentary evidences, recheck the calculations for restatement and also enquire with appropriate authorities for the requirement of restatement.

The auditor shall document the nature of additional procedures applied and the results obtained therefrom.

Involvement of and communication with the Client (Management/TCWG)

The auditor shall communicate with management/ TCWG for the following situations:

1. Identification of misstatement in the opening balances
2. Inconsistent application of accounting policies
3. Modification of the previous period not resolved in the current period.
4. Misstatement in current year's financial statement due to misstatement in opening balances.

It is also relevant for the auditor to communicate with management/ TCWG if he/she intends to perform additional procedures so that Management/ TCWG can provide necessary information for obtaining the sufficient appropriate audit evidences.

Illustrations/Case studies

1. Rescheduling/Restructuring of Borrowings during the extraordinary circumstances

When there is rescheduling or restructuring of borrowings by the lender, the auditor shall obtain evidence about the consent of the lender. The rescheduling or restructuring might be made as a result of affected business during the affected period.

2. Restatement of opening balances due to error or omission in the previous period

There might be a situation where the restatement in the opening balances might have been made for rectification of the prior period errors. These errors may or may not be associated with the affected period. However, when the restatement is observed, auditor shall obtain sufficient appropriate evidence about the appropriateness of restatement and disclosure.

3. Modification in predecessor auditors report due to extraordinary circumstances

The predecessor auditor might have modified his/her opinion because of lack of sufficient appropriate audit evidence which occurred due to extraordinary circumstances. For example: lack of confirmation from material debtors due to temporary closure of office at year end, auditor's inability to attend physical verification, etc. In such circumstances, if the additional procedures can deliver sufficient evidence to the auditor then auditor can form appropriate opinion on the Financial Statements. However, if the evidence cannot be obtained even after applying the additional procedures, auditor shall carry the modification in previous audit report in his opinion for subsequent year accordingly.

3.5 NSA 530: Audit Sampling

Requirement of the Standard

Para Ref	Requirements
6- 8	When designing audit sample, consider- <ul style="list-style-type: none"> • Purpose of audit procedure • Characteristics of population from which sample will be drawn • Determine sample size sufficient to reduce sampling risk to acceptably low level • Select from sample in such way that each unit has equal chances of selection
9	Perform audit procedures on each item selected
10	If audit procedure is not applicable in selected item- <ul style="list-style-type: none"> • Perform audit procedure on a replacement item
11	If audit procedure or alternative procedure could not be applied to selected item, treat the item as- <ul style="list-style-type: none"> • deviation from prescribed control (test of control) • Misstatement (test of detail)
12	<ul style="list-style-type: none"> • Investigate further the nature and cause of deviation or misstatement • Evaluate their possible effect on audit procedures
13	If deviation or misstatement is considered anomaly (rare case)- <ul style="list-style-type: none"> • Obtain high degree of certainty that deviation or misstatement is not representative of population
14	Project misstatement found in sample to population
15	Evaluate- <ul style="list-style-type: none"> • Result of sample • Whether use of sampling has provided reasonable basis for conclusion about population that has been tested

Description of relevant requirements applicable for extra-ordinary circumstances

The purpose of audit sampling is to improve audit efficiency. However, the auditor shall always keep in mind the risk associated with determining the sample size, characteristics of the population and whether results from such sample appropriately represent the sample. Also, extra-ordinary circumstances may prevent an auditor to check/verify the sample so selected and hence need to replace the sample with similar risky items and/or apply alternative audit procedures to check the item or treat the situation as a lapse in control system itself. Further, due to varied level of controls applied to the transactions before and during/after the extra-ordinary circumstances, the auditor may find it difficult to stratify the transactions accordingly and apply different risk measures, which will ultimately affect the sample size to be verified and interpretation of the results thereof.

Alternative and additional audit procedures/considerations

As we know, due to the prevalence of extra-ordinary circumstance, the auditor may need to revisit its basis for materiality determination. Please refer to the formula below for determining the sample size as prescribed in APM:

$$\text{Sample Size} = \text{Residual Population} / \text{Overall Materiality} \times \text{Risk Factors}$$

There are two considerations that affect sample size, one is level of materiality and risk factor. Both of these may undergo changes based on auditor's evaluation of the impact of extra-ordinary situation on controls, overall economy, pressure and vulnerability of the circumstances.

Thus, it may be recommended that the auditor shall, applying professional judgement and skepticism:

- a) Assess the impact on controls,
- b) Management's responses and actions
- c) Dividing the period before and after the extra-ordinary situation and hence 2 sets of population
- d) Reset materiality and risks levels.

Involvement of and communication with the Client (Management/TCWG)

Since there is direct impact on sample sizes to be audited and need for special attention to transactions (samples) during the extra-ordinary circumstances, the auditor shall communicate with the management/TCWG about the auditor's approach and support that are considered inevitable to reduce sampling risk to acceptably low level, otherwise this may be considered scope limitation and ultimately leading to modification of audit opinions.

Illustrations/Case studies

1. How to stratify the audit population for selecting samples?

Due to varied level of risks, when the operations have been halted during the partial period of a financial year (say in Nepal, the COVID-19 impact started only after mid-March 2020 and hence period before and after March 2020), it may be wise for the auditors to separate the transactions entered into before the impact and during the impact period for the purpose of determining the sample size, selecting the samples and applying audit procedures.

2. Is it necessary to increase sample size for transactions during extra-ordinary situation?

The auditor's objective is to reduce audit risk of issuing inappropriate audit opinion audit opinion on financial statements, which s/he reduces to acceptably low level by obtaining sufficient appropriate audit evidences. However, due to the prevalence of situation there could be break in control systems and other parameters inducing misstatement of financial statements, it is necessary to be more skeptical about the transactions occurred during pandemic as well as obtaining of reliable audit evidences for other period as well due to limitation of audit procedures to be performed and materiality thus lowered. Thus, as the sample size depends on the risk factor and materiality level, samples to be subjected for detailed audit may be increased to bring audit risks to an acceptable low level.

3.6 NSA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures Requirement of the Standard

Requirement of the Standard

Para Ref	Requirements
8	<ul style="list-style-type: none"> For risk assessment procedures and related activities, obtain an understanding of <ul style="list-style-type: none"> Requirements of applicable financial reporting framework relevant to accounting estimates, including related disclosure How management identifies transactions, events, conditions giving rise to need for accounting estimates How management makes accounting estimates (method, control, underlying assumptions, any changes in method and reason, assessment of effect of estimation uncertainty)
10, 11	<ul style="list-style-type: none"> Evaluate the degree of estimation uncertainty associated with accounting estimate Evaluate whether high estimation uncertainty give rise to significant risk
12	<ul style="list-style-type: none"> Determine whether - <ul style="list-style-type: none"> Management has appropriately applied requirement of applicable financial reporting framework to accounting estimates Method for accounting estimates are appropriate and consistent Changes in estimate or in the method from prior period are appropriate in circumstances
13	<ul style="list-style-type: none"> In response to assessed ROMM determine whether- <ul style="list-style-type: none"> Event occurring up to date of auditor's report provide evidence regarding accounting estimate Test how management make estimates and data used (appropriateness and reasonableness of method and assumption) Test operating effectiveness of control Develop point estimate or range to evaluate management's point estimate Consider whether specialized skills or knowledge is required to obtain SAAE in relation to accounting estimate.
15, 17	<ul style="list-style-type: none"> For accounting estimates giving rise to significant risk, evaluate- <ul style="list-style-type: none"> How management has considered alternative assumption Why it has been rejected How management has addressed estimation uncertainty Whether significant assumption used are reasonable, appropriate and the decisions made regarding recognition, de-recognition are in accordance with applicable Financial Reporting Framework
21	Review judgement and decision made by management to identify the indicators of possible management bias
22	Obtain written representations from management, TCWG that they believe significant assumptions used in making accounting estimates are reasonable
23	Document- <ul style="list-style-type: none"> Basis for auditor's conclusion about reasonableness of accounting estimates and disclosure that give rise to significant risks Indicators of possible management bias, if any

Description of relevant requirements applicable for extra-ordinary circumstances

Management is required to make estimates of those transactions which do not have precise means of measurement. Accounting estimates are required in normal course of reporting to communicate the reasonable status of financial operations. However, during the extraordinary circumstances like pandemic, it may not be possible for the management to determine the appropriate assumptions for making the estimates due to which the auditor may have to escalate the level of professional skepticism.

Particularly the following common areas may be significant for making the estimation or revision of estimation made in normal course of business:

- a. Valuation of Inventories
- b. Employee Termination Benefits (as the entity may lay off its current manpower due to pandemic or any similar situation)
- c. Contractual Penalties for being unable to deliver the work within the specified time
- d. Insurance recoveries related to business interruptions
- e. Incremental provisioning for doubtful debts because of disruption in customer's business
- f. Impairment of Goodwill, Property Plant and Equipment, Intangible Assets and Valuation & impairment of receivables, loans and advances

It is relevant for the auditor to identify the potential impact of extra-ordinary circumstances on the determination of estimates by management. It is because the various factors as mentioned below might affect the management's estimation making process:

- a. Uncertainty in determining the duration for which the extra-ordinary situation will last.
- b. Change in base for making estimates (for example: inventories remaining idle for long time may become obsolete hence the normal provisioning may not suffice)
- c. Lack of appropriate inputs (data, assumptions) for making estimates
- d. Unavailability of appropriate benchmark of extraordinary situation for making estimate etc.

NSA 540 provides the guidance to auditors for auditing accounting estimates and disclosures. However, the requirements of NSA 540 need to be supplemented through additional procedures to evaluate the reasonableness of estimates made by the management.

Alternative and additional audit procedures/considerations

The additional procedures are relevant to enhance the appropriateness of evidence related to the estimation made by the management. Those additional procedures may include physical verification, inspection or enquiries by the auditor directly. For example, the auditor might have to gather information from the market for identifying the value relevant for impairment of assets. Similarly, if the auditor is unable to establish the rationale for management's estimation, auditor shall develop his estimation based on prudence and compare it with the estimation made by the management. If material deviation is observed in the range estimated by the auditor and that of the management, auditor shall further enquire about the assumptions made by the management as it might be an indicator of management bias.

Generally, the management bias is intended for creating a favorable situation for the management which may lead to material misstatement in the Financial Statements.

Other additional procedures to verify the reasonableness of estimation might include the comparisons from similar clients having strong internal controls, consulting the expert for estimation, etc.

Involvement of and communication with the Client (Management/TCWG)

If the auditor identifies that the estimation made is unreasonable, the auditor shall communicate with management/ TCWG for obtaining proper explanations. The auditor shall communicate his views about the unreasonableness of the estimation made. It is also relevant for the auditor to communicate the effect of misstatement due to unrealistic estimation made by the management.

As per para 22 of NSA 540, The auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable. The written representations shall also include a declaration that disclosures related to accounting estimates are complete and appropriate under the applicable financial reporting framework and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Illustrations/Case studies

A. Inventories expired during the extra-ordinary period

There may be a situation when the inventories having short life remained idle because of the suspension of the business which ultimately led to their expiry. Now it would require the estimation for recoverable value (disposal value) of such inventories. In such situations, auditor shall do some research for identifying the market price (disposal value) of such inventories in order to evaluate the reasonableness of reduction in value and the estimation of valuation loss.

B. Employee Termination Benefits

Due to pandemic or similar situations, the entities lay off their staffs to reduce fixed costs. In such situation appropriate provision for employee termination benefits will have to be accounted by the entity. The auditor shall check the reasonableness of calculations made by the management and if such provision is calculated on the basis of estimate made by expert, auditor shall consider competence, working procedures and judgements of the expert.

C. Contractual Penalties

The entity might have entered into contract with third party for delivering services or goods. The contract might provide the provision for penalty if the performance is delayed. Due to the pandemic or similar situation, it is likely for delay in performance of contract within the stipulated time. In such situation, the provision for penalty is accounted by the entity. The auditor shall check the contracts and evaluate the reasonableness of provision for penalty accounted by the entity.

D. Incremental Provisioning for doubtful debtors

Due to the extraordinary circumstances, the business of the customers might be affected and their ability to pay might be hampered. There may be delay in payment or complete inability to pay due to severe effect on their business. In such circumstances the entity might provide additional provision for the receivable balances. The auditor shall perform additional procedures to identify the appropriateness of management's actions and communicate with such external parties to confirm their status.

E. Management Bias

The entity's liquidity might be affected due to the extraordinary situation. The lenders need to be assured that financial health of the borrower is sound. In such circumstances it is likely for the auditor to observe management bias in the forecasts or provisional financial statements and ultimately the actual financial statements. For example: the entity might under provision the debtors to show sound status. The auditor shall perform analytical procedures to identify significant variation in ratio of estimations.

3.7 NSA 560: Subsequent Events

Subsequent Events are those events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. As per the FRF, subsequent events are broadly classified as *Adjusting Events and Non Adjusting Events*. *Adjusting Events* are those which provide evidence of conditions that existed at the date of the financial statements (historically referred to as Type I subsequent events) & *Non Adjusting Events that provide evidence of conditions that arose after the date of the financial statements (historically referred to as Type II subsequent events)*. Type I Subsequent Events need to be accounted and disclosed properly in the financial statements whereas Type II Subsequent Events only require the disclosure of the nature of the event and an estimate (if possible) of its financial impact.

During the pandemic or similar circumstances, the consideration of subsequent events is important for the auditor to understand their impact on the financial statements and managements disclosure regarding the same. NSA 560 provides the guidelines to auditor regarding the subsequent events.

Requirement of the Standard

Para Ref	Requirements
6	Perform audit procedures to obtain SAAE that all subsequent events requiring adjustment or disclosure have been identified
7	<ul style="list-style-type: none"> Auditor risk assessment in determining nature and extent of audit procedure should include- <ul style="list-style-type: none"> Obtaining an understanding of procedures management has established to ensure subsequent events are identified Inquiry of management, TCWG whether any subsequent events have occurred which might affect financial statement Reading minutes Reading entity's latest subsequent interim financial statement
9	If auditor identifies events that require adjustment or disclosure in the financial statement, auditor shall determine whether each event is appropriately reflected in financial statement in accordance with applicable FRF.
10- 13	<ul style="list-style-type: none"> For facts been known after date of auditor's report but before financial statements are issued- <ul style="list-style-type: none"> No obligation to perform audit procedure If facts become known which may have caused amendment in auditor's report <ul style="list-style-type: none"> Discuss matter with management, TCWG Determine whether financial statements need amendment Inquire how management intends to address matter in financial statements If management amend financial statements- <ul style="list-style-type: none"> Carry out audit procedures to date of new auditor's report Provide new auditor's report on amended financial statement If management does not amend financial statement where auditor believes need to be amended- <ul style="list-style-type: none"> If auditor's report has not yet been provided, modify opinion <ul style="list-style-type: none"> If auditor's report has already been provided, notify management, TCWG not to issue financial statements to third parties before necessary amendment If financial statements are issued without necessary amendments-

	- Take appropriate action to prevent reliance on auditor's report
14-17	<p>For facts been known after financial statements are issued-</p> <ul style="list-style-type: none"> • No obligation to perform audit procedure • If facts become known which may have caused amendment in auditor's report <p>- Discuss matter with management, TCWG</p> <p>- Determine whether financial statement need amendment</p> <p>- Inquire how management intends to address matter in financial statements</p> <ul style="list-style-type: none"> • If management amend financial statements <p>- Carry out audit procedures to date of new auditor's report</p> <p>- Ensure that anyone in receipt of the previously issued financial statements together with the auditor's report is informed of the situation Provide new auditor's report on amended financial statement (Emphasis of matter paragraph, Other matter paragraph)</p> <ul style="list-style-type: none"> • If management does not amend financial statement where auditor believes need to be amended <p>- Notify management not to issue Financial statement without amendment</p> <p>- Take appropriate action to prevent reliance on auditor's report. Notify management that the auditor will seek to prevent future reliance on the auditor's report.</p> <p>- If despite notification management or TCWG do not take necessary step, take appropriate action to prevent reliance on auditor's report</p>

Description of relevant requirements applicable for extra-ordinary circumstances

NSA 560 focuses on the auditor's duty regarding the assessment and reporting of financial status of the entity subsequent to the preparation of Financial Statements. These situations can even hamper the individual elements of the Financial Statements as well as the overall Financial Position of the entity.

It is the responsibility of management to design and apply procedures to identify subsequent events that have significant effect on the Financial Statements. The auditor needs to obtain an understanding about how the management has identified and accounted the subsequent events.

Due to the extra-ordinary circumstances, there might be shift in reporting deadlines. In such circumstances, the auditor will have to perform the procedures that covers the longer period i.e. the shifted duration. The extraordinary circumstances and their likely impact require the auditor to apply professional skepticism when considering the sufficiency and appropriateness of audit evidence regarding accounting and disclosure of all material subsequent events.

Due to the extraordinary circumstances, the following events or conditions may be identified subsequent to reporting period:

1. An Agreement to sell major assets to meet short term liquidity requirements
2. Increase in Capital or Debt
3. Relief provided by the government which can reduce to existing liabilities significantly. For example: tax waivers, concessions etc.
4. Liability for Employee Termination Benefits resulting from workforce reduction
5. Developments of events which may require significant revision in estimates and provisions such as bankruptcy/ shut down of major customer(s).

Auditor shall ask the management/TCWG to update disclosures related to subsequent events.

If the auditor identifies that the occurrence of subsequent event has a material impact and thus needs to be accounted or disclosed but the management has not made proper disclosure or accounting of the same, then, depending upon the pervasiveness, auditor shall modify his opinion in accordance with NSA 705. In case of appropriate disclosure or accounting by the management, auditor will need to include Emphasis of Matter Paragraph or Other Matter paragraph in accordance with NSA 706.

When the management/ TCWG refuses to amend the Financial Statements or refuse to notify the users to prevent reliance on issued Financial Statements, the responsibility to notify shifts to the auditor and accordingly, auditor needs to take appropriate measures to seek to prevent reliance on the auditor's report. The auditor's course of action for seeking to prevent reliance depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

Alternative and additional audit procedures/considerations

For identifying the subsequent events that may have impact on the Financial Statements relevant to audit, auditor can enquire with the management/ TCWG including the staffs and employees for any information which they are aware, could have impact on the Financial Statements.

As per NSA 560 inquiry of management and, where appropriate TCWG, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- Have any new commitments, borrowings or guarantees been entered into? Have any sales or acquisitions of assets occurred or planned?
- Have there been any increases in capital or issuance of debt instruments, such as issues of new shares or debentures or an agreement to merge or liquidate?
- Have any assets been appropriated by government or destroyed by fire or flood?
- Have there been any developments regarding contingencies?
- Have there been any unusual accounting adjustments been made or contemplated?
- Have any events occurred or likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements?
- Have any events occurred that are relevant to the measurement of estimates or provisions made in financial statements?

As the preconditions agreed as per NSA 210 allow the auditor to seek access to documents, records and required information, the auditor can request the management to provide the copies of minutes of meetings held after the date of financial statements.

For the amendments made in the Financial Statements to address the impact of subsequent events, auditor shall understand the management's procedure to amendment and also check whether the amendments are in line with the requirements of applicable Financial Reporting Framework.

Involvement of and communication with the Client (Management/TCWG)

Communication with Management/ TCWG helps the auditor to identify the subsequent events and controls adopted by the Management/TCWG in identification, accounting & disclosure of the subsequent events. It also helps the auditor to determine the nature, timing and extent of audit

procedures to be used to address the subsequent events. The auditor has to make communication with Management/ TCWG when the significant subsequent events are identified. The communication is aimed at identifying the procedures and actions taken by the management/ TCWG for addressing the effect of subsequent events. When the management does not take necessary action to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, auditor has to communicate the matter to TCWG that the auditor will seek to prevent future reliance on the auditor's report.

Also, the auditor is mandated to communicate with Management/ TCWG where the auditor plans to modify his opinion due to the effect of subsequent events.

Illustrations/Case studies

1. Financial Restructuring

a. Creditors Arrangements

Due to the effect of pandemic or similar extraordinary circumstances, there is a possibility of financial restructuring. Creditors may provide relief in payment deadlines or there may be remission in liability. For such possibilities, the auditor shall obtain an understanding for the adjustments made by the entity and their basis. The auditor shall examine documents and records to prove the remission and obtain confirmation from the parties if need be.

b. Loan Restructuring

For the entities with debt instruments, the lenders might have restructured the debt obligations (EMI rescheduling, moratorium periods, discount in interest rates, etc). Such circumstances can be identified through recent banking policies subsequent to the reporting period, government instructions etc. The auditor shall obtain sufficient appropriate evidence for the adjustment of such situations in the Financial Statements. Communication with the lenders and obtaining the official documents that support the entity's basis for adjustment can be appropriate documentation for the auditors.

2. Litigations related to extra-ordinary periods

The retrenchment of employees is a common practice to reduce the extra fixed costs during the suspension of the business due to extraordinary circumstances. It is likely that the employee may initiate action against the entity for such decision. The result of litigation or negotiation may require the entity to pay the compensation which may be material.

Similarly, the litigations may be initiated by the parties for nonperformance of contracts within time. The nonperformance may have occurred due to suspension of business by the extra ordinary circumstances. The auditor needs to carry out procedures required by NSA 501 regarding litigations and claims.

3. Business Combinations

The position of business might be affected due to the extra-ordinary circumstances. The entity might opt for business combination to obtain synergy and function smoothly. Such arrangements are crucial for the users to understand the Going Concern ability and future plans of the entity. For such situations, the auditor shall study the management plans and actions to assess the going concern assumptions. The auditor shall obtain sufficient appropriate evidence

that appropriate disclosures related to business combinations have been adequately made. In the absence of disclosures, auditor shall consider the impact on his opinion.

4. Losses on Receivables

The business of the customer might be affected severely due to the extra ordinary circumstances. The entity might have to make material provision for such situations. The auditor has to obtain sufficient evidence about the casualty of the customer and the reasonableness of the estimate made by the management. If the provision is not reasonable or the auditor is unable to obtain evidence regarding the irrecoverability of receivables, auditor shall modify his opinion in accordance with the requirements of NSA 705.

5. Insurance Claims

The entity might have purchased an insurance policy to mitigate losses due to extra ordinary circumstances. If such claims are realized after the reporting period, they become subsequent events (Type II) and need appropriate disclosure.

The auditor has to obtain an understanding about the insurance policies purchased by the entity to mitigate the losses. The auditor shall document the copy of such policies and also obtain the confirmation from the insurer regarding the validity of claims to authenticate the disclosures made in the Financial Statements.

3.8 NSA 570: Going Concern

Introduction

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

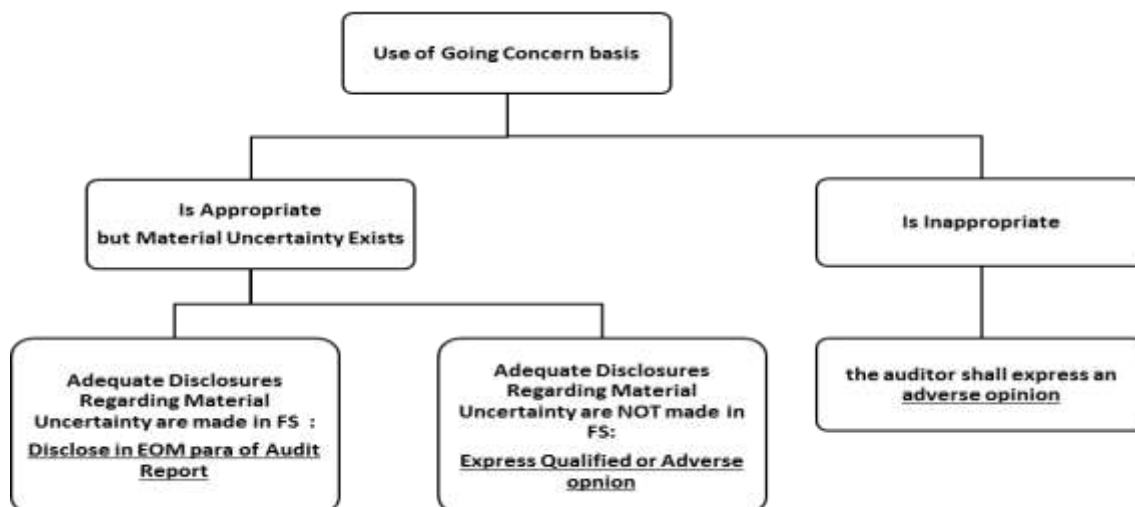
Management is responsible to make an assessment of an entity's ability to continue as going concern. The going concern assessment by management is required to be performed up to the date on which the financial statements are issued. Such assessment relates to at least the first twelve months after the balance sheet date, or after the date the financial statements will be signed, but the longer period can be justified depending upon the circumstances.

Requirement of the Standard

Para Ref	Requirements
10	Determine whether management has already performed preliminary assessment of entity's ability to continue as going concern If yes, <ul style="list-style-type: none"> • Discuss assessment with management • Determine if events/conditions have identified casting significant doubt on entity's ability to continue as going concern • Management's plans to address them, If no, • Discuss with management basis for intended use of going concern basis of accounting • Inquire whether events/conditions exist that individually or collectively cast significant doubt on entity's ability to continue as going concern
11	Remain alert for audit evidence of events/ conditions that may cast significant doubt on entity's ability to continue as going concern.
12-14	Evaluate management's assessment of entity's ability to continue as going concern, consider whether the management assessment includes all relevant information, If assessment covers a period of less than 12 months from date of financial statement- <ul style="list-style-type: none"> • Request management to extend the period of assessment to at least 12 months from that date
15, 24	Inquire management of knowledge of events or conditions beyond period of assessment when requested to do so, • If management is unwilling, consider the implications for the auditor's report
16, 17	If events/ conditions that may cast significant doubt have been identified, obtain SAAE to determine the existence of material uncertainty by performing additional audit procedure as: <ul style="list-style-type: none"> • Where management has not performed assessment, request management to make assessment • Evaluate management's plan for future actions about going concern assessment, whether the management's plan are feasible and its outcome is likely to improve situation, Where entity has prepared cash flow forecast, evaluate reliability of underlying data, determine whether there is adequate support for the assumptions of forecast.

	<ul style="list-style-type: none"> • Considering whether additional facts or information have become available since the date of management's assessment • Request written representation from management, TCWG regarding plans for future actions and feasibility of plans. • Obtain SAAE to determine whether material uncertainty exists related to events/conditions that may cast significant doubt on going concern. • Evaluate SAAE • Conclude the appropriateness of management's use of going concern basis
22, 23	<p>If auditor conclude that management's use of going concern assumption is appropriate but material uncertainty exist, determine whether the financial statement-</p> <ul style="list-style-type: none"> -Adequately disclose the principal event that cast significant doubt on entity's ability to continue as going concern and the management's plan to deal with these events/ conditions. -Disclose the existence of material uncertainty of events/ conditions that may cast significant doubt on entity's ability to continue as going concern and that it may be unable to realize its assets and discharge its liabilities in the normal course of business. <p>Determine whether it is adequately disclosed principal event that cast significant doubt and that entity may be unable to realize its assets, discharge liabilities in normal course of business</p> <p>Determine management's plan to deal with these events/ conditions</p> <p>If it is adequately disclosed in financial statement-</p> <p>Express unmodified opinion and,</p> <p>Include separate section under heading, "Material Uncertainty related to Going Concern"</p> <p>If adequate disclosure is not made-</p> <p>Express qualified or adverse opinion</p> <p>In basis for qualified (adverse) opinion section state that material uncertainty exists that may cast significant doubt</p>
21	<p>Inappropriate use of going concern assumption-</p> <ul style="list-style-type: none"> • Express adverse opinion
25	<p>Communicate to TCWG, events/ conditions identified casting significant doubt. Communication shall include-</p> <ul style="list-style-type: none"> • Whether events/ conditions constitute material uncertainty • Whether management's use of going concern basis is appropriate • Adequacy of related disclosure in financial statements • Implications for auditor's report
26	<p>If there is significant delay in approval of financial statement by management/ TCWG after date of financial statement-</p> <ul style="list-style-type: none"> • Inquire reason for delay • Whether it could be due related to events/ conditions related to going concern • Perform additional audit procedures necessary • Consider the effect on auditor's conclusion material uncertainty.

IMPLICATION IN AUDITORS REPORT

**Description of relevant requirements applicable for extra-ordinary circumstances**

The extra-ordinary circumstances are likely to hamper the business operations directly or indirectly. Due to the effect of extra-ordinary circumstances, whether during the reporting period or after the reporting period, the going concern assumption of the entity might be affected. NSA 570 has laid down the responsibilities of the auditor to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

For the reporting period affected by extra-ordinary circumstances, the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The indicators (Financial, Operating and other) are of significant importance in assessing the risk of violation of Going Concern assumption by the entity. These indicators need to be closely examined by the auditor to assess their potential impact on the status of the entity. The presence of indicator(s) alone cannot be considered as the sufficient ground for the breach of going concern assumption.

As stated in NSA 570, Para A7, the significance of indicators can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

However, the auditor needs to perform additional procedures to identify the associated risks. The auditor has to enquire about management's future plans and actions for mitigating the risks brought by the indicators.

Accordingly, auditor has to consider the reporting requirements instructed by NSA 570.

Alternative and additional audit procedures/considerations

In light of the COVID-19 pandemic, there may be events that may cause concern on the financial viability of entity in question. Para 16 of NSA 570 recommends the auditor to consider additional audit procedures when the events and conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified. The auditor shall also consider the following:

- a. Has management performed an assessment of the entity's ability to continue as a going concern?
- b. Has the auditor evaluated management's plan for future actions relative to its going concern assessment? Has the outcome of these plans improved the situation? Are management's plans feasible in the current circumstances?

Evaluating management's plans for future actions may include inquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

- c. Has the entity prepared a cash flow forecast and analysis of the forecast? Future outcomes of evaluation of management's plan for future actions:
 - i. Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - ii. Determining whether there is adequate support for the assumptions underlying the forecast.
- d. Have any additional facts or information become available since the date management made its assessment?
- e. Have any written representations from management, especially those charged with governance, outline their plans for future actions and feasibility of these plans?

The further additional audit procedures as prescribed by application and other explanatory material of NSA 570 are:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

- Evaluating the entity's plans to deal with unfilled customer orders.
The auditor shall confirm whether the agreement with the customer is still active.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

The auditor shall apply procedures in consonance with NSA 560

- Confirming the existence, terms and adequacy of borrowing facilities.
- Determining the adequacy of support for any planned disposals of assets.

It is important for the auditor to document the nature of procedures applied and results obtained thereof.

Involvement of and communication with the Client (Management/TCWG)

When the auditor's procedure identifies any events or conditions that can cast significant doubt on entity's ability to continue as going concern, then it is relevant for the auditor to communicate with the management/ TCWG to validate his findings. The auditor's communication generally includes:

- a. Auditor's views about the events identified (i.e. whether those events or conditions constitute material uncertainty)
- b. Confirmation about the appropriateness of managements use of going concern basis
- c. The adequacy of related disclosures in the financial statements
- d. Implications in Auditor's Report

The inquiries with management/ TCWG are also in the nature of communication made with them. Those inquiries are specifically related to:

- a. Management/ TCWGs assessment of Going Concern
- b. Their future plans and actions to deal with the events identified
- c. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay

Based upon auditor's interaction with indicators and other factors that are associated with Going Concern assumption, auditor needs to plan the nature and extent of communication to be made with Management/ TCWG.

Illustrations/Case studies

1. Industry Response

The extraordinary situation might have severe impact on a particular industry. The auditor shall obtain an understanding of possible duration of impact and whether the client related to such industry can survive the impact. For example; due to the effect of COVID 19, the industries like hospitality business, entertainment, cinema halls, malls etc. are likely to have severe impact. The auditors of such businesses need to apply robust procedures to identify the appropriateness of going concern assumption and seek management/ TCWGs future plans and actions to deal with the possible impact. If the government has announced any relief packages or grants, auditor shall understand the managements approach for such relief packages or grants and whether such schemes can justify the going concern assumption of the entity.

2. Specific Indicators

- a. Loss of Major Market, Key Customers, Revenue, Labor Shortages
Due to the extraordinary circumstances the client may experience a loss of major market, loss of key customers, and loss of revenue or labor shortages to operate smoothly. If such indicators are observed, the auditor shall inquire whether the management has made the

assessment of risk due to such circumstances. Auditor has to obtain an understanding of management's future plans and actions and the appropriateness of such plans.

b. Deterioration in value of inventories

During the extraordinary circumstances, the business is suspended and the inventories lie idle. If the inventories are of short life span, there is a risk of deterioration. Also, if the value of inventory is material, it might affect the business in the long run. The auditor shall inquire management/ TCWG about how they will account & disclose the inventories. Auditor shall inquire whether the entity has insured its stock. If the entity qualifies for insurance claim and the insurance claim is sufficient to cover the loss, auditor can obtain representation regarding the same.

c. Loss of major asset due to extraordinary circumstances

Natural disasters and other extraordinary circumstances can cause a loss of major assets that are used to generate cash flows. The auditor has to enquire managements plan & ability for replacement of lost assets.

d. Significant Deterioration in the value of assets used to generate cash flows

While making the fair value assessments, if the auditor becomes aware that there is significant deterioration in the value of assets used to generate cash flows due to extraordinary circumstances, auditor has to check the reasonableness of valuation made by the management. If the expert has been used in valuation, auditor has to consider the competency, working procedures and results of expert.

e. Inability to pay to lenders

It is likely that due to suspension of business, the entity will not be able to fulfill its debt obligations. The auditor has to obtain an understanding about the agreements made with the lenders regarding the restructuring of debt and obtain confirmation with the lenders to ensure that the debt obligations disclosed by the management are appropriate. If the restructuring scheme is not available, auditor shall enquire how the management is going to meet the obligations.

f. Management's Intentions to liquidate the entity or cease operations

Due to the significant impact in business, if the auditor comes to know that the management has intentions to liquidate business or cease operations, the auditor shall confirm with the management/ TCWG and ensure that there is appropriate disclosure for the same. In absence of disclosure or inappropriateness of accounting, the auditor will have to modify his opinion.

3.9 NSA 580: Written Representations

Introduction

Written Representations means a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Simply, it can be said that written representations cannot be considered as substitute for sufficient appropriate audit evidence. The auditor cannot reduce the extent of his other audit procedures merely because the management has provided reliable written representations.

Requirements of the Standard

Para Ref	Requirements
9	Request written representation from management with appropriate responsibilities for financial statement and knowledge of matters
10-13, 20	<ul style="list-style-type: none"> Request management to provide written representation that- <ul style="list-style-type: none"> It has fulfilled its responsibility of preparation of financial statement as per applicable financial reporting framework It has provided all relevant information and access as agreed in the term of engagement All transactions have been recorded and are reflected in financial statement Has description of management's responsibilities as described in terms of engagement Other representations as required by relevant NSAs Auditor shall disclaim opinion if:- <ul style="list-style-type: none"> Concludes that there is significant doubt about integrity of management such that written representation are not reliable or, Management does not provide written representation
14	Date of representation should be near but not after date of auditor's report
16	If auditor is concerned about competence, integrity, ethical value, diligence of management- <ul style="list-style-type: none"> Determine effect of such concern on reliability of representation and audit evidences
17	If written representation is inconsistent with other evidence- <ul style="list-style-type: none"> Perform audit procedures to attempt to resolve matter If matter remain unresolved- <ul style="list-style-type: none"> Reconsider assessment of competence, integrity, ethical value, diligence of management. Determine effect of this on reliability of representation and audit evidence
18	If consider written representation are not reliable- <ul style="list-style-type: none"> Take appropriate actions including determining possible effect on opinion
19	If management does not provide one or more requested written representation- <ul style="list-style-type: none"> Discuss with management Reevaluate integrity of management Evaluate the effect that may have in reliability of representation and audit

	evidence • Take appropriate actions, including determining possible effect on opinion
20	The auditor shall disclaim an opinion on the financial statements in accordance with NSA 705 if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable or if the management doesn't provide the required written representations.

Description of relevant requirements applicable for extra-ordinary circumstances

In light of the extraordinary circumstances, there might be change in auditor's approach to obtain evidence regarding the assertions in the Financial Statements. In this context, the written representations provided by the management can support the other evidences thereby maintaining the sufficiency and appropriateness of audit evidence. It is to be noted that only obtaining written representation will not suffice and it can prove auditor negligent in discharging his duties.

During the extra-ordinary circumstances management can also insist the auditor to accept written representation instead of applying other substantive procedures. This situation can also lead to limitation on scope of audit. Therefore, the auditors shall be skeptical especially if the management is willing to provide representations instead of allowing him to perform substantive tests.

The auditor shall obtain written representations for the specific matters addressed by other standards and also for the specific matters that were encountered as a result of extra ordinary circumstances. Otherwise, alternative procedures are required.

Alternative and additional audit procedures/considerations

Due to extra ordinary circumstances, it may be not possible for the auditor to obtain written representations in hard copy. The auditor can obtain written representations in electronic media by confirming the source and authenticity.

Involvement of and communication with the Client (Management/TCWG)

As per NSA 260 (Revised), the auditor to communicate with TCWG, the written representations which the auditor has requested from management. As per NSA 450 requires the auditor to accumulate misstatements identified during the audit and communicate a threshold for purposes of the requested written representations.

Illustrations/Case studies

Written Representation as recommended by specific NSAs and their relevance is mentioned in the chart below:

No.	NSA Name	Relevance
NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements— paragraph 39	During the extraordinary circumstances, there is possibility of window-dressing for luring the investors and lenders. The auditor is required to obtain written representations specifically providing declaration that management has disclosed the auditor their knowledge of fraud, or suspected fraud, affecting the entity involving management and employees who have significant role in internal controls.
NSA 250	Consideration of Laws and	Due to the extra-ordinary circumstances, there might be breach in laws and regulations which might not be detected by auditor.

	Regulations in an Audit of Financial Statements— Paragraph 16	Hence, Auditor is required to obtain specific representation that the management along with TCWG have complied with all relevant laws and regulations. The auditor shall request management and, where appropriate, TCWG, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects shall be considered when preparing financial statements have been disclosed to the auditor.
NSA 450	Evaluation of Misstatements Identified during the Audit—Paragraph 14	If the misstatements are detected as a result of unusual entries during extraordinary circumstances, the auditor shall request a written representation from management and, where appropriate, TCWG whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation
NSA 501	Audit Evidence— Specific Considerations for Selected Items— Paragraph 12	If the entity has faced any lawsuits because of the extraordinary circumstances such as non- performance of contract, Written Representations shall be obtained to acknowledge that all known Litigations are accounted & disclosed appropriately.
NSA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures- para 22	Because of the extra-ordinary circumstances, there might be revision in estimates which can have significant impact on the financial statements. The auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.
NSA 550	Related Parties— Paragraph 26	In extra ordinary circumstance, the possibility of related party transactions is higher. For example: the loan obtained by one party is used in the operations of the other unit, the inter-company adjustments for transaction settlement etc. The auditor shall obtain written representations from management and, where appropriate, TCWG that they have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.
NSA 560	Subsequent Events— paragraph 9	The subsequent events as a result of extraordinary circumstances require proper consideration by the auditor although the responsibility to identify and account such subsequent events vests with the management. As per the requirements of NSA 560 the auditor shall obtain written representations that all the events occurring subsequent to the date of Financial statements and for which the applicable FRF

		requires adjustment or disclosure have been adjusted or disclosed.
NSA 570	Going Concern- Para 16(e)	If the events or circumstances cast doubt about the entity's ability to continue as going concern, the auditor shall obtain written representations regarding their plans for future actions and feasibility of those plans.

Topic 4: Special Considerations - Audit of Group Financial Statements (including the work of Component Auditors)

Introduction

Group audit is a special focus situation for all auditors every time where the group auditor accepts this responsibility and will remain responsible for evaluating whole audit project. This means analyzing internal evidence to determine if an appropriate process can be put in place to gather the financial information needed to complete a group audit engagement.

The extra-ordinary circumstances, such as the pandemic may affect this type of assignment in numerous ways. Both group auditors and component auditors may find themselves unable to perform necessary tasks due to travel limitations and other restrictions imposed on businesses by governments. If the group auditor concludes that it won't be possible to gather enough evidence for a new engagement, it shall not be accepted. If the group auditor comes to the same conclusion regarding any ongoing engagement, the team shall consider withdrawing from it if such an action is permitted under the relevant laws and regulations. For audits that can be carried out, the team will have to carefully adapt its processes to the evolving situation.

Involvement with component auditors

Under the extra-ordinary circumstances, such as the COVID-19 pandemic may have had on finances, there is a risk of displaying inaccurate information in reports related to components, specifically significant one. To prepare for this possibility, the group and component auditors need to work together to create appropriate risk evaluation measures. They must also design and deploy additional processes that will allow them to complete necessary work, despite the disruptions caused by extra-ordinary circumstances, including the COVID-19 pandemic.

On group audits, extra-ordinary circumstances, including pandemic may impact two main areas:

- That the auditor may be unable to provide sufficient, appropriate audit evidence to support their opinion; and
- The auditor may face an additional challenge where they are unable to carry out their review of component auditor working papers as planned under the requirement of NSA 600.

NSA 600- NSA 620 deal with the standards related to using the work of others while forming an Auditor's Opinion and Reporting. In this document, the following standard is discussed to provide guidelines for consideration of auditors during extra-ordinary circumstances.

NSA No.	Title
NSA 600	Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

4.1 NSA 600: Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)⁴

Para Ref	Requirements
11	The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances.
12	The group engagement partner <i>shall</i> determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion.
15	The group engagement team <i>shall</i> establish an overall group audit strategy and shall develop a group audit plan in accordance with NSA 300.
16	The group engagement partner <i>shall</i> review the overall group audit strategy and group audit plan.
17	The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment.
24	The group engagement team <i>shall</i> determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the component and <i>shall</i> also determine the nature, timing and extent of its involvement in the work of the component auditors.
50	The group engagement team <i>shall</i> include in the audit documentation the following matters: <ol style="list-style-type: none"> An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components. The nature, timing and extent of the group engagement team's involvement, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon. Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

Description of relevant requirements applicable for extra-ordinary circumstances

Extra-ordinary circumstances may prevent the group engagement team from testing group-wide controls, meaning that audit strategy may have to be adjusted accordingly. If such an adjustment to the plan is made, the group must keep all component auditors informed.

It may not be possible for the group auditor to visit the component audit team to evaluate their work and access their working papers. As per the IFAC guidelines, if it is not possible to review the necessary component audit work papers (whether in person or electronically), the group auditor will need to undertake other measures, which will likely involve additional work. This could include one of more of the following:

- Uploading files (e.g. into the cloud) with access provided to the group audit engagement team

⁴ Information put forward in this chapter of guidelines are excerpt of NSA 600 and collection of best practice information among audit practice in extra ordinary economic circumstances- including pandemic.

- b. Video calls and/ or screen sharing to review the component auditor work or use of remote access
- c. A more detailed memorandum or questionnaire provided to the component auditor, corroborated with more detailed discussions with the group engagement team
- d. Information from the client provided directly to the group engagement team so they can perform their own procedures on the financial information of the component (if possible).

Obviously, in-person meetings may not be possible or advisable at this time. Auditors can use technology to overcome these limitations; meetings, for example, can be held by video conference. If regulations permit, e-copies of crucial documents can be circulated to the appropriate people. Auditors can also review files together by screen sharing. Use of virtual machine and cloud-based software can further expedite this process.

The evolving COVID-19 situation may indeed cause further unexpected disruption and alter the group engagement team's ability to work with component auditors. But clear communication and effective use of digital technologies shall let auditors remain agile enough to complete the audit.

Finally, the group engagement team may need to perform subsequent event procedures if component auditors are unable to work or if the COVID-19 situation changes.

Alternative and additional audit procedures/considerations

Companies and their auditors are facing wholly unprecedented practical challenges in a number of areas. The IFAC and the ICAN has issued multiple alerts, advisory notes, and bulletin so far providing guidance for auditors and matter for additional consideration where engagements are affected by COVID-19.

NSA 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.

Many auditors may try to meet this requirement in the time to come 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 NSA 600.

Group auditors may find the following considerations helpful:

- **Identify impacted audits:** Ashad year-ends will need to be considered immediately, but shall the restrictions continue.
- **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 pandemic 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 shall be encouraged to allow local management and auditor's time to recover from the disruption resulting from the pandemic. 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 cross-border data sharing. If in doubt, advice shall 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 shall 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 NSA 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 NSA 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 NSA 705?

- **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 NSA 706? Determine whether there are wider accounting effects, for example for companies with Ashad 2077 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 pandemic, for example in disclosures on the principal risks to their business. How are they providing updated information to shareholders and monitoring the situation?

In addition to above, group auditor may develop standard template to document communication with component management and auditor to confirm, enquire and risk assessment regarding the impact adjusted and to be adjusted in the consolidated books of accounts and financial reporting.

Involvement of and communication with the Client (Management/TCWG)

The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by NSA 260 (Revised) and other NSAs in the light of extraordinary circumstances including pandemics:

- a. An overview of the type of work to be performed on the financial information of the components.
- b. An overview of the nature of the group engagement team's planned involvement in the work to be performed by the component auditors on the financial information of significant components.
- c. Instances where the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.
- d. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.
- e. Fraud or suspected fraud involving group management, component management employees who have significant roles in groupwide controls or others where the fraud resulted in a material misstatement of the group financial statements.

Illustrations/Case studies

Your client has a significant component in an overseas jurisdiction and you would normally travel to their location to review the audit files and you are not clear on implications.

Regardless of the circumstances, the group engagement team is responsible for obtaining sufficient appropriate audit evidence to form the group audit opinion and the group engagement partner is responsible for the direction, supervision and performance of the group audit engagement, as required by NSA 600 *Special Considerations-Audits of a Group Financial Report*.

Points for consideration:

- Communicate with component auditors as soon as practicable to discuss potential impacts arising from the pandemic.

- Consider any increased risk that financial information for those components may be inaccurate or incomplete due to the pandemic.
- Can the group engagement team utilise technology, where not prohibited by laws or regulations, to review the component auditor's work remotely?
- Can the group engagement team perform work themselves without using component auditors, by working with group management? The group engagement team may consider financial information that is available from group management, as group management also needs to obtain the component's financial information in order to prepare the group financial report.

Where additional reliance is to be placed on component auditors, consider what is necessary to evaluate the adequacy of the component auditors' work and consider additional work or any scope limitation that may arise, including:

- Whether additional reporting is required from the component; and
 - More frequent communication (via teleconference and written) between the group auditor and the component auditor.
- Communicate with management and those charged with governance on a timely basis with respect to significant matters like difficulties encountered during the audit, potential delays in the auditor's reporting and expected modifications to the auditor's report.
 - Consider the possible effects on the group audit opinion, NSA 705 contains requirements and guidance on how to address situations where the group engagement team is unable to obtain sufficient appropriate audit evidence.

Topic 5: Special Consideration for Forming an Auditors Opinion and Reporting

Introduction

The purpose of the audit is to obtain reasonable assurance that the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e., the auditor plans and performs the audit to obtain reasonable assurance that the financial statements, including disclosures, are free from material misstatement) and an auditor is comfortable to issue unmodified opinion.

NSA 700 applies to an audit of a complete set of general-purpose financial statements and is written in that context when the economy and its industry units are running at expected fashion. The AuSB believes that in an extreme economic and financial situation like Covid-19 may arguably result in a rise in modifications to the auditor's opinion or auditors report due to, for example, issues related to material misstatement of the financial statements or more circumstances where there is an inability to obtain sufficient appropriate audit evidence. Similarly, there could arguably be more 'modified' audit opinions and more 'material uncertainties' highlighted in audit reports in relation to going concern, and more 'emphasis of matter paragraphs' for other Covid-19 related disclosures. In such situations, in addition to NSA 700, other NSAs like NSA 701, NSA 705, and NSA 706 would be applicable to the extent audit context demands.

Thus, in the extra-ordinary circumstances, forming an opinion and reporting may be more challenging and there is a need to consider alternative and/or additional approach than that may have previously been not applied.

This topic covers following standards:

NSA No.	Title
NSA 700:	Forming and Opinion and Reporting on Financial Statements
NSA 701:	Communicating Key Audit Matters in the Independent Auditor's Report
NSA 705:	Modifications to the Opinion in the Independent Auditor's Report
NSA 706:	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

5.1 NSA 700: Forming an Opinion and Reporting on Financial Statements

Requirements of the Standard

NSA 700 has set precise norms for concluding and issuing an auditor's opinion and report based on the standard and explanatory para and illustrations. Deviation from these requirements is not acceptable in any scenarios, be it extraordinary circumstance, and be it pandemic or natural disaster. In this document, certain paras of the standard are discussed to provide guidelines specific to address the reporting period which is affected by a situation beyond control.

Para Ref	Requirements
10	The auditor <i>shall</i> form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
11	An auditor shall consider following to be assured for the financial statements as a whole be free from material misstatement: <ul style="list-style-type: none"> • whether sufficient appropriate audit evidence has been obtained; • whether uncorrected misstatements are material, individually or in aggregate; • The evaluation of qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
13	The auditor <i>shall</i> evaluate whether, in view of the requirements of the applicable financial reporting framework: <ol style="list-style-type: none"> (a) The financial statements appropriately disclose the significant accounting policies selected and applied. (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate; (c) The accounting estimates made by management are reasonable; (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and; and (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
16 & 17	The auditor <i>shall</i> express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. If the auditor: <ol style="list-style-type: none"> (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor <i>shall</i> modify the opinion in the auditor's report in accordance with NSA 705 (Revised).
20 & 23	The auditor's report <i>shall</i> be in writing & the first section of the auditor's report <i>shall</i> include the auditor's opinion, and <i>shall</i> have the heading "Opinion."
30	For audits of complete sets of general-purpose financial statements of listed entities, the auditor <i>shall</i> communicate key audit matters in the auditor's report in accordance with NSA 701.
46	The name of the engagement partner <i>shall</i> be included in the auditor's report on

Para Ref	Requirements
	financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat after discussing with TCWG.

Description of relevant requirements applicable for extra-ordinary circumstances

All the requirements of this NSA demand for highest level of professional judgment and skepticism in general but in case of extra-ordinary circumstances, our profession will be viewed in the utmost demand to heighten its relevance and inputs in economic development and nation building. While concluding an audit in such scenario, following areas needs special attention from practice units:

1. Key Audit Matters (KAM) para

New reporting standard NSA 700 (Revised) requires that the presentation of Key Audit Matters is compulsory in the body of auditor's report in case of listed companies and notified auditees for the auditor's report to be issued on or after Shrawan 01, 2077. By definition, KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements and extra-ordinary circumstances like pandemic may boost multiple audit matters to be evolve as KAM. **(Detailed guidelines are separately dealt in specific guidelines on NSA 701 Later)**

2. Material Uncertainty Relating to Going Concern

An extraordinary situation may raise multiple questions on going concern basis of accounting of industry units demanding more professional judgement on the part of auditors. So, this para also needs special attention while reporting in such scenario and auditors are suggested to follow NSA 570 (separately dealt) at par. **(Detailed guidelines regarding modifications due to going concern are separately dealt-in on NSA 705 Later)**

3. Other information para as per NSA 720

NSA 720 requires in case of auditors of listed company to check consistency of financial information with other information, the auditee has planned to include in its annual report before the date of auditor's report (*few exceptions provided*) and non-compliance may result to modification of opinion and it goes up to withdrawing from the engagement. Extreme circumstances including pandemic may also trigger management motivation for such non-compliance resulting to the auditor's extra cautions.

It is thus relevant for the auditor to maintain a higher degree of professional skepticism especially for the transactions accounted during the period of extra ordinary situations like COVID-19 outbreak.

Alternative and additional audit procedures/considerations

In addition to the routine risk assessment and documenting responses, auditors are also suggested to assess the existence of red flags of material misstatements due to extraordinary situations, including pandemic and top up his/her wrap up procedure, specifically with respect to disclosure part, with the help of checklist provided in the annexure in addition to Audit Practice Manual (APM). Any count of 'Yes' in the checklist needs special attention from engagement partner and quality control reviewer.

Special Consideration in Group Audit

Following are the special consideration in case of group audits:

- ❖ When there are multiple sources of relevant ethical requirements for group auditors and component auditors, component auditors are also subject to ethical requirements that are relevant to the group audit.
- ❖ NSA 600 provides specific guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

Involvement of and communication with the Client (Management/TCWG)

Auditors has basic responsibilities to communicate with management and those charged with governance during the audit and additional communications as required by NSA 701 also. However, in case of extraordinary situations, including pandemic, he/she needs to be more vigilant in following respects and put the skeptical situation with TCWG:

- i. How has a particular extra-ordinary circumstance like COVID-19 impacted or expected to impact financial position and results of operations?
- ii. How has a particular extra-ordinary circumstance like COVID-19 impacted capital and financial resources, including overall liquidity position and outlook?
- iii. How do you expect a particular extra-ordinary circumstance like COVID-19 to affect the assets on balance sheet and ability to timely account for those assets? For example, will there be significant changes in judgments in determining the fair-value of assets measured in accordance with NFRS?
- iv. Do you anticipate any material impairments (e.g., with respect to goodwill, intangible assets, long-lived assets, right of use assets, investment securities), increases in allowances for credit losses, restructuring charges, other expenses, or changes in accounting judgments that have had or are reasonably likely to have a material impact on financial statements?
- v. Have a particular extra-ordinary circumstance like COVID-19 -related circumstances such as remote work arrangements adversely affected ability to maintain operations, including financial reporting systems, internal control over financial reporting and disclosure controls and procedures?
- vi. Have you experienced challenges in implementing your business continuity plans or do you foresee requiring material expenditures to do so? Do you face any material resource constraints in implementing these plans?
- vii. Do you expect a particular extra-ordinary circumstance like COVID-19 to materially affect the demand for your products or services?
- viii. Do you anticipate a material adverse impact of a particular extra-ordinary circumstance like COVID-19 on your supply chain or the methods used to distribute your products or services?
- ix. Do you expect the anticipated impact of a particular extra-ordinary circumstance like COVID-19 to materially change the relationship between costs and revenues?
- x. Will your operations be materially impacted by any constraints or other impacts on your human capital resources and productivity?
- xi. Are travel restrictions and border closures expected to have a material impact on your ability to operate and achieve your business goals?
- xii. Are you considering a particular extra-ordinary circumstance like COVID-19 as an adjusting or non-adjusting event?

Illustrations/Case studies

1. You could not access your client's site to perform walkthroughs of transactions and internal controls testing.

Even if there are no plans to rely on the operating effectiveness of controls, NSA 315 still requires auditors to obtain an understanding of internal controls relevant to the audit and evaluate the effectiveness of their design and whether they have been implemented. NSA 315 also requires that the auditor obtains an understanding of the entity's controls, including control activities, relevant to all significant risks. In respect of some audit risks, the auditor may determine that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures, so controls testing is required by NSA 330.

If restrictions on travel and visiting client's sites means that controls testing cannot be performed as planned, auditors will need to reconsider the audit approach. Auditors need to determine what audit evidence can be obtained remotely that provides comfort that controls are designed in a way that would prevent or detect and correct material misstatements in a timely manner, and that they have been implemented and / or are operating effectively. It may be possible to employ the use of technology to observe controls being performed or inspect relevant supporting documentation (i.e. reconciliations) through video conferencing, scanned documents, sharing screens etc. Data analytic procedures may also be utilized when performing controls testing. Auditors shall document how they gathered the evidence and their evaluation of the appropriateness of the evidence. Auditors shall consider the control environment when assessing the appropriateness of the source of audit evidence and the risk of manipulation.

Auditors may also need to re-assess the planned level of reliance on controls and perform more substantive testing to respond to the assessed risk of material misstatement.

If auditors cannot adequately perform procedures required by the auditing standards this may result in a limitation of scope that requires a modification to the Auditors Report.

2. You could not attend the physical verification of the Inventory.

The primary responsibility of the auditor is to physically attend the inventory counting either at/prior to/ post the balance sheet date as required by NSA 501. Even in situations where the auditor opts for alternative audit procedures as envisaged in the NSA, the auditor is not absolved from the primary responsibility in respect of attendance at physical inventory counting and thus cannot include a division of responsibility in the auditor's report in respect of alternative audit procedures carried out.

The implications of an inability to attend inventory counting on the auditor's opinion will depend on the quality and reliability of audit evidence obtained by performing alternative audit procedures. Where such alternative audit procedures provide sufficient appropriate audit evidence to conclude that inventory is free from material misstatement, the auditor's opinion need not be modified in respect of inventory.

However, if it is not possible to perform alternative audit procedures to obtain sufficient appropriate audit evidence in relation to material inventory balances, the auditor shall modify the opinion in the auditor's report in accordance with NSA 705(Revised). In many cases, this will result in a modified auditor's opinion due to a limitation of scope. Nature of modification i.e. qualification vis-a-vis disclaimer would depend on whether the matter is pervasive to the financial statements.

3. Given the decrease in interest rates, your client is confused as to it still evaluate lease classification and measure the lease liability using the incremental borrowing rate at the lease commencement date.

Even though rates may have come down temporarily or may be uncertain due to the impact of the coronavirus, NAS 17 still requires the use of the incremental borrowing rate at lease commencement date. If your client has decided to apply decreased rate, consider the materiality of misstatement while forming an opinion.

4. Your Client's revenue recognition is impacted by a customer's inability to make payments due to the disruption caused by the coronavirus or other economic events.

NAS 18 requires that in order to have a "contract" and, therefore, to be able to recognize revenue, a company must conclude that it is probable it will collect substantially all of the consideration to which it will be entitled under the arrangement. If a company continues to sell products and services to a customer when it is uncertain whether collectability is probable, due to the potential deterioration of its customer's financial position or that customer's current inability to settle outstanding receivables, the question arises as to whether revenue can continue to be recognized on new transactions.

NAS 18 requires a company to first consider any potential price concessions that it expects to provide, which reduce the transaction price, before assessing collectability. Additionally, a company shall consider as part of the collectability assessment whether it has the ability and intent to cease providing service if the customer fails to pay. In many cases it may be challenging to conclude that collection for new sales is probable when the customer has been unable to pay existing receivables. This type of situation requires judgment and is dependent upon facts and circumstances; however, if a company cannot conclude collection is probable at inception of an arrangement, it cannot recognize revenue from the arrangement. If a company concludes collection is not probable at contract inception, it shall continue to reassess this conclusion each reporting period as collection may become probable at a later date. Further, even for contracts that are currently in process, a significant change in facts and circumstances, such as a significant deterioration in a customer's ability to pay, would be an indicator that a company shall also reassess whether it is probable that it will collect the remaining consideration under the contract for future goods and services.

If a company concludes collection is not probable, but the customer subsequently makes a payment, revenue can only be recognized when one or more of the following occurs:

- a. The entity has no remaining obligations to transfer goods or services to the customer, and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable.
- b. The contract has been terminated, and the consideration received from the customer is non-refundable.
- c. The entity has transferred control of the goods or services to which the consideration that has been received relates, the entity has stopped transferring goods or services to the customer (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is non-refundable."

If above approach is not reasonably followed, modifications of opinion as per NSA 705 shall be considered.

5. Your client's sales are significantly reduced or suspended for an extended period subsequent to the balance sheet date, how shall your client company assess the impact to inventory valuation?

Under NAS 10, "Subsequent events affecting the realization of assets, such as inventories, or the settlement of estimated liabilities, shall be recognized in the financial statements when those events represent the culmination of conditions that existed over a relatively long period of time."

Companies will need to assess the timing of the Extra-ordinary Circumstances, including Pandemic related events that impact inventory valuation. All information related to inventory valuation shall be taken into account through the issuance of the financial statements (or when available to be issued for private companies). However, when a specific event results in the loss of value of the inventory, such as discrete decisions to close stores or governmental actions to restrict individuals' activities that may not have been reasonably predicted as of the balance sheet date, the inventory would be impaired in the same period that the specific event occurred.

Sales of inventory or other events after the balance sheet date may provide additional evidence about conditions that existed at the balance sheet date that could impact a company's valuation of inventory at the lower of cost or net realizable value. Determining the net realizable value at the balance sheet date is a matter of judgment. A company shall consider all data available, including future demand and subsequent changes in product prices that may provide additional information about the valuation at the balance sheet date.

If the approach discussed is not reasonably applied, modifications of opinion as per NSA 705 shall be considered.

6. You are facing auditee's Non-Compliance with Laws and Regulations (NOCLAR) emerged from COVID-19

In conducting an audit of financial statements, the auditor takes account of the applicable legal and regulatory framework as per NSA 250. The auditor is required to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

The auditor is also required to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements.

Many jurisdictions are issuing new regulations and directives related to COVID-19. These may include, for example, requirements to restrict or close business operations or refrain from predatory pricing. While these requirements are intended to protect public health and safety, these new measures could also change (increase) the likelihood of instances of non-compliance – whether intentional or not.

If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the auditor is required to perform further procedures, including evaluating the implications of identified or suspected non-compliance in relation to other aspects of the audit.

If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with NSA 705, express a qualified opinion or an adverse opinion on the financial statements.

Appendices

a. Checklist for Red flags existence due to Extra-ordinary Circumstances, including Pandemic

Possible Red Flags	Existence (Yes/No/NA)
<input type="checkbox"/> Employee productivity reduced	
<input type="checkbox"/> Cash flow problems	
<input type="checkbox"/> Stopped / reduced purchases – customers affected by the virus	
<input type="checkbox"/> Having to defer launch of new products and services	
<input type="checkbox"/> Stopped / reduced purchases – supply chain disrupted	
<input type="checkbox"/> Unable to obtain supplies from preferred suppliers	
<input type="checkbox"/> Having to defer investments in productivity capacity	
<input type="checkbox"/> Unable to fulfill customer orders – operations disrupted	
<input type="checkbox"/> Unable to fulfill customer orders – logistics network disrupted	
<input type="checkbox"/> Increase in material prices / quality issues	
<input type="checkbox"/> Industrial down turn like in travel and tourism	
<input type="checkbox"/> Debt Restructuring as not recommended in monetary policy of central bank	

b. Check list for disclosures adequacy

Focus Areas of Disclosures	Adequacy (Yes/No/NA)
<input type="checkbox"/> Subsequent events	
<input type="checkbox"/> Going concern	
<input type="checkbox"/> Asset valuation, including impairment triggers and related assessments	
<input type="checkbox"/> Accounting estimates, including fair value measurements	
<input type="checkbox"/> Revenue recognition, including effects of contract modifications	
<input type="checkbox"/> Leases	
<input type="checkbox"/> Income taxes, including tax valuation allowances	
<input type="checkbox"/> Provisions, allowances, and loss contingencies	
<input type="checkbox"/> Debt covenants modifications or restructuring; and	
<input type="checkbox"/> Disclosures, including those pertaining to risks and uncertainties, and liquidity-related disclosures	
<input type="checkbox"/> Related Parties	
<input type="checkbox"/> Estimates and fair values	

5.2 NSA 701: Communicating key audit matters in the independent auditor's report

Introduction

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters under NSA 701 provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements.

The AuSB believes that an extreme economic and financial situation like Covid-19 may arguably result in multiple audit matters being complex, subjective and challenging and ultimately electing to be a KAM. It is also challenging to practice unit in Nepal being the first year of application of the NSA 701 in case of listed and notified auditees from the Shrawan 01, 2077. Thus, in the extra-ordinary circumstances, determining Key Audit Matters may be more challenging and there is a need to consider alternative and/or additional approach than that may have previously been not applied.

Requirements of the Standards

NSA 701, Communicating Key Audit Matters in the Independent Auditor's Report, deals with the auditor's responsibility to communicate matters of most significance in the audit of the financial statements of listed entities or other entities for which law or regulation requires communication of key audit matters. In this document, some specific standards are discussed to provide guidelines specific to address the reporting period which is affected by a situation beyond control.

Para Ref	Requirements
8	Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.
9	The auditor <i>shall</i> determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit considering the following: <ol style="list-style-type: none"> Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with NSA 315 (Revised). Significant auditor judgments required areas where management has applied significant judgments (accounting estimates) having high estimation uncertainty. The effect on the audit of significant events or transactions that occurred during the period.
10	The auditor <i>shall</i> determine which of the matters determined were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.
11	The auditor <i>shall</i> describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report <i>shall</i> state that: <ol style="list-style-type: none"> Key audit matters are those matters that in the auditor's professional judgment

Para Ref	Requirements
	<p>were of most significance in the audit of the financial statements [of the current period]; and</p> <p>b. These matters were addressed in the context of the audit of the financial statements as a whole and in forming the auditor's opinion thereon and the auditor does not provide a separate opinion on these matters.</p> <p><i>(Please refer the appendix for suggested presentation of KAM in the face of Auditors Report)</i></p>
12	The auditor <i>Shall</i> not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with NSA 705 (Revised) as a result of the matter.
13	<p>The description of each key audit matter in the Key Audit Matters section of the auditor's report <i>Shall</i> include a reference to the related disclosure(s), if any, in the financial statements and <i>Shall</i> address:</p> <p>a. Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and</p> <p>b. How the matter was addressed in the audit.</p>
14	<p>The auditor <i>Shall</i> describe each key audit matter in the auditor's report unless:</p> <p>a. Law or regulation precludes public disclosure about the matter; or</p> <p>b. In extremely rare circumstances, the auditor determines that the communication is expected to outweigh the public interest benefits. This <i>shall</i> not apply if the entity has publicly disclosed information about the matter.</p>
15	<p>A matter giving rise to a modified opinion in accordance with NSA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with NSA 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters <i>Shall</i> not be described in the Key Audit Matters section. Rather, the auditor <i>Shall</i>:</p> <p>(a) Report on these matter(s) in accordance with the applicable NSA(s); and</p> <p>(b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section.</p>
16	If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed, the auditor <i>Shall</i> include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters."

Description of relevant requirements applicable for extra-ordinary circumstances

When NSA 701 applies, additional focus may be needed on the key audit matters reported in the auditor's report because of the changing circumstances due to Covid-19. The areas that were significant in the KAMs in a prior year may require expansion to include consideration for the current year audit response in that area for Covid-19, as well as consideration of other KAM arising from Covid-19 impacts (e.g. valuation reports, materiality calculations, government support).

Given the uncertainties, auditors will be challenged to evaluate certain disclosures, particularly those related to significant estimates and assessment of going concern, additional KAMs (e.g., close

calls relating to going concern) may be warranted. Issues relating to going concern are only included within the Key Audit Matters section of the auditor's report when the auditor has concluded that management has accounted for going concern appropriately and there is no material uncertainty about the company's ability to continue as a going concern.

While communicating KAM, following areas of requirement needs special care as well:

- Concepts of EOM and OM paragraphs are retained even after introduction of KAM para
- Matters that give rise to a modified opinion are KAM by their nature
- If modification in the nature adverse opinion or qualified opinion is planned, still the communication of KAM is relevant but if the modification is in the nature of Disclaimer of Opinion, not relevant (unless such reporting is required by law or regulation.)
- Similarly, KAM is not:
 - ✓ A substitute for disclosures in the financial statements
 - ✓ A substitute for the auditor to express a modified opinion
 - ✓ A substitute for reporting any matters relating to going concern

Alternative and additional audit procedures/considerations

- **Approach to determine matters that involve “especially challenging, subjective, or complex auditor judgment”.**

KAMs stand out from the other numerous matters addressed during an audit due to the challenging, subjective, or complex auditor judgment they require. Some aspects of an audit are inherently more challenging, subjective, or complex than others and are therefore more likely to meet the criteria for KAMs when they arise. Other aspects of an audit may involve especially challenging, subjective, or complex judgment only in the context of a particular issue, transaction, or circumstance.

“Especially challenging, subjective, or complex auditor judgment” is assessed in the context of the many judgments the auditor makes in the course of conducting the audit. The standard uses the word “especially,” instead of “most” as originally proposed, to convey more clearly that there could be multiple KAMs and that matters are assessed on a relative basis within the specific audit.

For example:

A matter that was a KAM in a previous period would not cease to be a KAM just because another matter arose in the current period requiring even more challenging, subjective, or complex auditor judgment. If both matters involved especially challenging, subjective, or complex auditor judgment in the current year, the auditor would identify both as KAMs.

In determining KAMs, the auditor shall consider each of the criteria in the KAM definition: a KAM may involve *especially challenging auditor judgment, especially subjective auditor judgment, especially complex auditor judgment*, or some combination thereof.

When communicating KAMs, auditors may choose to identify specifically which of the three criteria apply to each KAM. However, labeling a matter as “challenging,” “subjective,” and/or “complex” does not substitute for the required description of the principal considerations driving the KAM determination. That description shall be specific to the circumstances and provide a clear, concise, and understandable discussion of ***why*** the matter is a KAM—i.e., what

especially challenging, subjective, or complex auditor judgments were involved in auditing the matter.

For Example

Following are the possible areas requiring especially challenging, subjective and complex auditor judgement in Pandemic:

- *Goodwill valuation hard hit areas like travel and tourism*
 - *Valuation of Financial Instruments,*
 - *Specially, long term, where short term interest rate is highly volatile*
 - *BFI's loans are non-performing on account of repayment and operation as on reporting date but regulator has provided short term policy (Non-financial) intervention.*
 - *BFI's loan portfolio relating to certain sectors (S01 Forest etc.; S02 Fishery; S04 Agricultural; S09 Transport; S12 Hotels) & products (P04 TR Loan and Force Loan; P07 Margin Lending)*
 - *Going Concern Assessment for material uncertainty*
 - *Impairment of assets due to long halt (Cement, Steel and large factory setup)*
 - *Recognition of revenues from construction contracts*
 - *Determination of NRV of finished goods and valuation of raw materials due to obsolescence, damage, contamination, physical erosion, decline in selling prices etc.*
- **Finding the relationship between KAMs and a company's disclosures regarding critical accounting estimates.**

In general, companies shall provide a discussion in audit committee or senior management about critical accounting estimates and assumptions where:

- The nature of the estimates or assumptions is material because of the levels of subjectivity and judgment needed to account for matters that are highly uncertain or susceptible to change.
- The effect of the estimates and assumptions is material to the financial statements.

The critical accounting estimates for which management is required to provide disclosure may overlap with KAMs but they are not the same thing. While some critical accounting estimates (or components of those estimates) may be the subject of KAMs, not all critical accounting estimates necessarily would be.

The source of KAMs is broader than just critical accounting estimates (i.e., all matters communicated or required to be communicated to the audit committee), and the auditor may identify matters as KAMs that have not been identified as critical accounting estimates.

- **Determining timing and approach to include a KAM on COVID-19 related matters.**

Auditors of listed and notified entities shall consider the changing circumstances and the impact of COVID-19 on their client and the audit process when determining which matters are KAMs and the description of how these have been addressed.

The changing circumstances as a result of COVID-19 may impact the communication of KAMs in the following way:

- The matters which are determined to be KAMs may change from those reported in prior years as the auditor focuses on the most significant matters in the current audit. For example, focusing on account balances, classes of transactions or disclosures which are significantly impacted by the greater uncertainty in the current environment, which may require additional auditor attention than in previous audits. The AuSB believes that substantial fraction of auditor's reports on listed companies Ashad 2077 year-end financial reports communicate different KAMs as a result of COVID-19.
- The description of the KAMs includes the procedures the auditor performs to address the impact of COVID-19 on the matter. For example, audit procedures performed over impairment models and cash flow estimates describe how management have considered COVID-19 in their key assumptions and the procedures the auditor has conducted over these. The AuSB expects significant number of the total KAMs communicated in listed company auditor's reports Ashad 2077 year-end financial reports, will include descriptions of the impact of COVID-19 on the matter and the procedures the auditor has conducted.
- Communicating how COVID-19 has impacted the audit approach and underlying methods of gathering sufficient appropriate audit evidence in a different manner to previous years as a result of COVID-19 related travel restrictions.
- Including a KAM on going concern when it is a "close call", if the auditor spends more time on gathering evidence that the going concern basis of accounting is appropriate and that no material uncertainty exists, than in prior years.

If KAMs are not communicated in the auditor's report (i.e. not a listed entity), the auditor may elect to communicate how COVID-19 impacted the audit in an 'Other Matter Paragraph'.

Special Consideration in group Audit

For listed and notified entities, a Key Audit Matter (KAM) related to substitute or additional audit work may be considered because of the extra-ordinary circumstances like COVID-19 outbreak to describe the approach for group audit and when the auditor cannot travel to significant subsidiaries overseas and group audit engagement letter may need amendments in these respects.

Involvement of and communication with the Client (Management/TCWG)

The auditor *shall* communicate with those charged with governance:

- (a) Those matters the auditor has determined to be the key audit matters; or
- (b) The auditor's determination that there are no key audit matters to communicate in the auditor's report.

Illustrations/Case studies

Audit committee members and others have expressed common initial questions and/or concerns regarding the communication of KAMs in the auditor's report, including the following:

1. What impact will KAMs have on the communication between the auditor and audit committee?

The source of KAMs are those matters communicated or required to be communicated to the audit committee. NSAs already required a wide range of topics to be discussed and communicated with the audit committee, which in most cases means most, and likely all, of the matters that will be KAMs are already being discussed with the audit committee. However, not every topic that is discussed with the audit committee will rise to the level of a KAM. The AuSB believes there shall not

be a chilling effect or reduced communications to the audit committee because the requirements for such communications are not changing.

2. Could a significant deficiency in internal control be a KAM?

The determination that there is a significant deficiency in internal control over financial reporting cannot be a KAM because such determination in and of itself is not related to an account or disclosure. However, a significant deficiency could be among the principal considerations that led the auditor to determine a matter is a KAM. For example, if a significant deficiency was among the principal considerations in determining that revenue recognition was a KAM, then the auditor could describe the relevant control-related issues over revenue recognition in the broader context of the KAM without using the term significant deficiency.

3. What types of matters will rise to the level of KAM?

KAMs may often relate to the significant risk areas of the audit. However, it is important to note that all significant risks may not be KAMs, as not every significant risk involves especially challenging, subjective, or complex auditor judgment. Likewise, the NSA does not limit the population of potential KAMs to significant risks, as several other factors (as described previously) are taken into consideration in identifying KAMs.

4. Will KAMs only relate to the current audit period?

The NSA requires the communication of KAMs identified in the current audit period. While most companies' financial statements are presented on a comparative basis, requiring auditors to communicate KAMs for the current period, rather than for all periods presented, will provide relevant information about the most recent audit and is intended to reflect a cost-sensitive approach to auditor reporting. In addition, investors and other financial statement users will be able to look at prior years' filings to analyze KAMs over time; however, the standard permits the auditor to choose to include KAMs for prior periods.

5. Will the auditor be the original source of information about the company in the auditor's KAM communication?

The new standard includes a note explaining that the auditor is not expected to provide information about the company that has not been made publicly available by the company, unless such information is necessary to describe the principal considerations that led the auditor to determine that a matter is a KAM or how the matter was addressed in the audit.

Appendices

1. Suggested KAM Presentation Formats

a. Option I

Key Audit Matters _____.

'Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter'

Auditors Response _____.

'How the matter was addressed in the audit.'

References _____.

'Page # Reference'

b. Option II

S. N.	Key Audit Matters	Auditors Response	References
1	<i>'Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter'</i>	<i>'How the matter was addressed in the audit.'</i>	<i>Page # Reference</i>

5.3 NSA 705: Modifications to the opinion in the independent auditor's report

Introduction

The purpose of the audit is to obtain reasonable assurance that the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. AuSB believes that in an extreme economic and financial situation like Covid-19 may arguably result in a rise in modifications to the auditor's opinion as per NSA 705 due to, for example, issues related to material misstatement of the financial statements or more circumstances where there is an inability to obtain sufficient appropriate audit evidence. Similarly, there could arguably be more 'modified' audit opinions and more 'material uncertainties' highlighted in audit reports in relation to going concern, and more 'emphasis of matter paragraphs' for other Covid-19 related disclosures.

In addition, it is a reasonable expectation that for listed entities there will be an impact on KAMs included by auditors in relation to the impact of Covid-19, including more areas of the audit that will likely require significant auditor attention or the nature of KAMs previously reported may change. Thus, in the extra-ordinary circumstances, modification of opinion and reporting may become obvious and special attention among practice units to justify this challenging situation.

Requirements of the Standards

Para Ref	Requirements
6	The auditor <i>shall</i> modify the opinion in the auditor's report when: <ol style="list-style-type: none"> The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
10	The auditor <i>shall</i> disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Para Ref	Requirements
13 & 14	<p>If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor <i>shall</i> determine the implications as follows:</p> <ol style="list-style-type: none"> If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor <i>shall</i> qualify the opinion; or If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor <i>shall</i>: <ol style="list-style-type: none"> Withdraw from the audit, where practicable and possible under applicable law or regulation; or If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. <p>If the auditor withdraws as contemplated above, before withdrawing, the auditor <i>shall</i> communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.</p>
19	<p>When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor <i>shall</i>:</p> <ol style="list-style-type: none"> State that the auditor does not express an opinion on the accompanying financial statements; State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and Amend the statement required by paragraph 24(b) of NSA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.
23	<p>If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor <i>shall</i>:</p> <ol style="list-style-type: none"> Discuss the non-disclosure with those charged with governance; Describe in the Basis for Opinion section the nature of the omitted information; and Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.
29	<p>Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with NSA 701 or an 'Other Information' section in accordance with NSA 720 (Revised).</p>

Description of relevant requirements applicable for extra-ordinary circumstances

There may be three types of modified audit opinion during the extraordinary circumstances depending upon the materiality and pervasiveness of misstatements (**Please refer the appendix 'c' for modification reference**):

Type 1: Qualified Opinion

Type 2: Disclaimer of Opinion

Type 3: Adverse Opinion

In the context of possibilities of opinion modification, following potential areas related to the standard may be useful while discharging the duty of a responsible engagement team:

- A qualification, or adverse opinion, for example, in respect of inadequate disclosures, or going concern uncertainties, in the financial statements;
- A qualified opinion, or a disclaimer of opinion, because of scope limitation when unable to obtain sufficient appropriate audit evidence, for example:
 - ✓ When stock taking could not be attended in person;
 - ✓ If the information required in the notes on events after the balance sheet date, in the opinion of the auditor, were omitted and this is a material misstatement of the financial statements;
 - ✓ If the information required for the preparation and audit of the consolidated financial statements could not be obtained in a timely manner from the subsidiaries (or business segments) located in the regions concerned and, as a result, inclusion was based on (statistically extrapolated, if applicable) prior year figures;
 - ✓ If the statutory auditor was unable to obtain sufficient appropriate audit evidence about the financial information of the audited entity or the financial information of any of the subsidiaries. Depending on the scope of the possible effects on the consolidated financial statements, this may possibly result in a qualified audit opinion or even a disclaimer of opinion.

Auditors need to also consider their responsibilities in relation to other information presented by the management within the annual report. This is covered in NSA 720. When the entity has been materially affected and auditors have concluded that the accounting is not appropriate and/or that the financial statement disclosures made by management are inadequate or inappropriate, NSA 705 (Revised) requires auditors to issue a qualified or adverse opinion, as appropriate in the circumstances.

It is thus relevant for the auditor to maintain a higher degree of professional skepticism especially for the transactions accounted during the period of extraordinary circumstances.

Alternative and additional audit procedures/considerations

Auditors need to be highly vigilant and skeptical during a situation like pandemic have to put forth professional judgment in audit matters. Following are the few areas where additional attentions are being sought:

1. Modifications due to material Uncertainty Relating to Going Concern

If there is a modification to the auditor's opinion (e.g. a qualification or an adverse opinion or disclaimer of opinion) because of going concern issues (i.e. inadequate disclosures or limitation on scope in obtaining sufficient appropriate audit evidence) this is reported with NSA 705 (Revised). For other considerations of changes to the auditor's report, the guidelines under NSA 570 (Revised) Going Concern provides illustrative scenarios. Separately dealt in guidelines on

NSA 701 Later. Following table summarizes reporting issues under going concern and respective opinions. **(Please refer the appendix 'a' for possible modifications):**

In addition to above, going concern red flags as provided in appendix also be relevant an Audit during Extra-ordinary Circumstances, including Pandemic. **(Please refer the appendix 'b' for existence of possible red flags)**

2. Judging the other potential areas of modifications due to a situation of beyond control

For financial reports prepared in accordance with a fair presentation framework, auditors are required to consider the overall presentation of the financial report, including disclosures, and whether the report represents the underlying transactions and events in a manner that achieves fair presentation. When forming their opinion, auditors consider whether the material effects of the COVID-19 pandemic on the entity have been accounted for and disclosed adequately in the financial report.

The following may result in auditors concluding that a modified opinion is required:

- Inappropriate recognition and measurement of assets and liabilities due to disagreement on how the impacts of COVID-19 have been reflected; for example, inputs into accounting estimates are not considered reasonable by the auditor based on credible evidence (material misstatement).
- Inadequate disclosure about relevant risks, key assumptions and judgements applied by management (material misstatement).
- Required procedures and sufficient appropriate alternate procedures cannot be performed due to travel restrictions or lockdowns (unable to obtain sufficient and appropriate audit evidence).

Auditors may also find it more challenging when assessing if there is sufficient appropriate audit evidence in the current COVID-19 environment especially in areas of judgement.

An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to perform alternate procedures to gather sufficient appropriate audit evidence.

Special Consideration in group Audit

There are a significant number of overseas subsidiaries that make up the majority of a group's operations and as the auditor is unable to obtain evidence to audit the results of those overseas subsidiaries, due to border closure and travel restrictions, an opinion on whether the financial statements give a true and fair view cannot be given by the auditor and modification is sought.

Involvement of and communication with the Client (Management/TCWG)

When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance about the circumstances that led to the expected modification and the wording of the modification.

Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion due the extreme circumstances, including pandemic and the wording of the modification enables:

- The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
- The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
- Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

Illustrations/Case studies

Example 1:

An auditor has been unable to attend a year-end inventory count of goods that are due to be sold by the company or to put in place suitable alternative measures to obtain the audit evidence considered necessary about the existence and condition of inventory. This might be particularly relevant for Ashad 2077 year-ends onwards, until restrictions on movement are lifted. As a result, the auditor has determined that this is a limitation in the scope of the auditor's work, but in all other respects the financial statements give a true and fair view.

Example 2:

A disagreement arises over the fair value of an item in the financial statements given the impact of COVID-19. The auditor has determined that this misstatement could impact the decisions of users of the financial statements but that in all other respects the financial statements give a true and fair view.

Example 3:

Revenue on long-term contracts has been significantly overstated as it has not been recognized in accordance with applicable accounting standards. This misstatement is considered by the auditor to be material and pervasive and because of the significance of this matter, the auditor has determined that the financial statements do not give a true and fair view.

Appendices

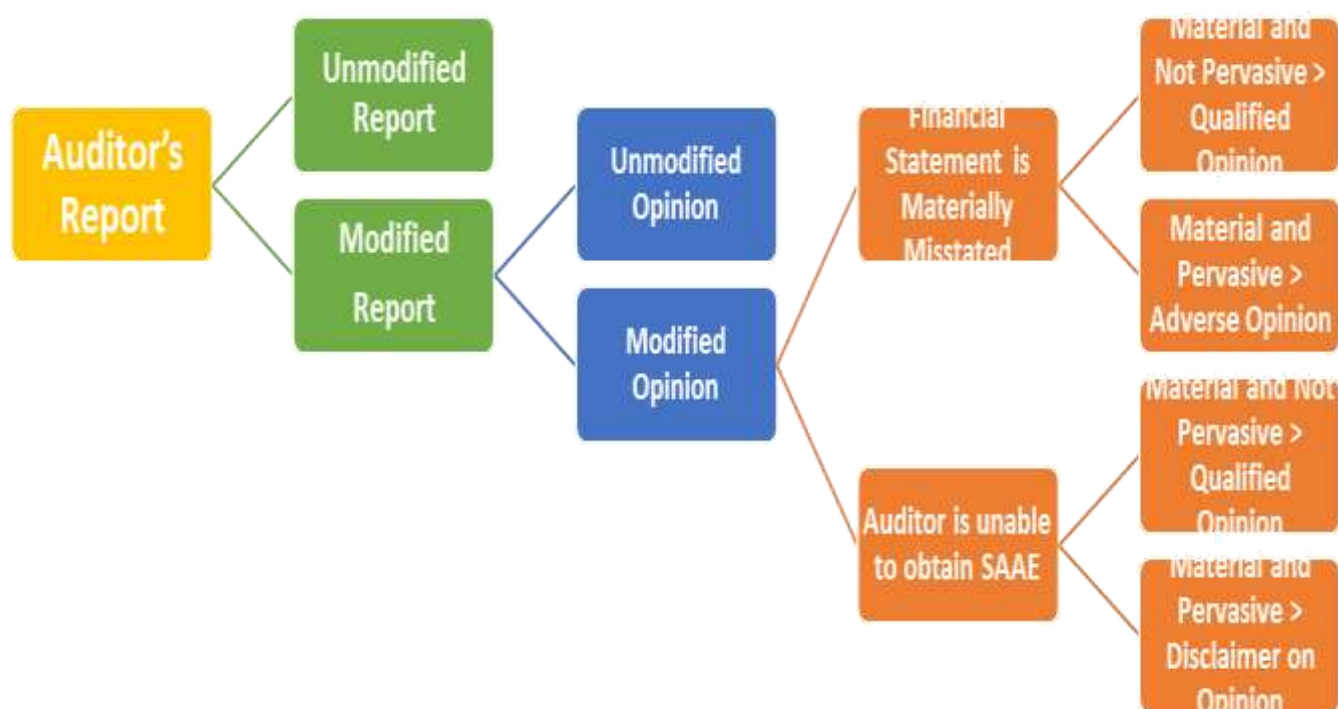
a. Modification of Auditors' Opinion due to going concern

PROVISION	REPORTING ISSUES	POSSIBLE OPINIONS
NSA 570 - P21	Use of Going Concern Basis of Accounting Is Inappropriate	Adverse Opinion
- P22 & 23	Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists and management has made- A. Adequate Disclosure; or B. Inadequate Disclosure	A. Unmodified Opinion + "Material Uncertainty Related to Going Concern" section in Auditor's Report; or B. A qualified opinion or adverse opinion + Explain in Basis for Qualified (Adverse) Opinion section
- P24	Management Unwilling to Make or Extend Its Assessment	The auditor <i>shall</i> consider the implications for the auditor's report.

b. Checklist for Red flags existence in appropriateness of going concern assessment due to Extra-ordinary Circumstances, including Pandemic

Possible Red Flags	Existence (Yes/No/NA)
<input type="checkbox"/> Rapidly increasing costs	
<input type="checkbox"/> Shortages of supplies	
<input type="checkbox"/> Adverse movements in exchange rates	
<input type="checkbox"/> Business failures amongst customers or suppliers	
<input type="checkbox"/> Loss of key staff	
<input type="checkbox"/> Technical obsolescence of product range	
<input type="checkbox"/> Industrial down turn	
<input type="checkbox"/> Liquidity and Solvency	
<input type="checkbox"/> Loss of service or goods demands	
<input type="checkbox"/> X...	
<input type="checkbox"/> Y...	
<input type="checkbox"/> Z...	

c. Modifications in Auditor's Opinion



5.4 NSA 706: Emphasis of matter paragraphs in the independent auditor's report

Introduction

The purpose of this standard is to establish requirements and provide guidance when the auditor considers it necessary to draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements. The AuSB believes that in extreme economic and financial situations like Covid-19 may arguably result to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report as per NSA 706 being it appropriately presented or disclosed in the financial statements, but it is of such importance that it is fundamental to users' understanding of the financial statements. Similarly, there could arguably be more communications eligible for EOM to be highlighted in audit reports Covid-19 related disclosures. Thus, in the extra-ordinary circumstances, inclusion of additional communication may become obvious and special attention among practice units to justify this challenging situation.

Requirements of the Standard

NSA 706: Emphasis of matter paragraphs and other matter paragraphs in the independent auditors report deals with additional communication in the auditor's report when the auditor considers it necessary to draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. The AuSB has compiled up the contexts of Emphasis of matter paragraphs in the situation beyond control in these guidelines.

Para Ref	Requirements
8	<p>If it is necessary to draw users' attention to the matter presented or disclosed in the financial statement</p> <ul style="list-style-type: none"> • Include the emphasis of matter paragraph <p>Provided-</p> <ul style="list-style-type: none"> • Modification of opinion is not required and • Matter to be communicated is not key audit matter
10	<p>If auditor considers it necessary to communicate a matter other than those presented and disclosed in FS, in auditor's judgement, is relevant to users' understanding</p> <ul style="list-style-type: none"> • Include an Other Matter paragraph in auditor's report <p>Provided-</p> <ul style="list-style-type: none"> • Not prohibited by law and • Matter to be communicated is not key audit matter
12	<p>If auditor is expected to include Emphasis of Matter or Other Matter paragraph, communicate with TCWG-</p> <ul style="list-style-type: none"> • Expectation and • wording of paragraph

Description of relevant requirements applicable for extra-ordinary circumstances

It is a matter of auditor's professional judgement to determine what is and is not to be considered "fundamental to users' understanding of the financial report" and is specific to the entity's circumstances. NSA 706 includes examples of circumstances where the auditor may consider it necessary to include an EOM paragraph, which includes a significant subsequent event, and a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position. NSA 706 also cautions that widespread use of EOM paragraphs may diminish the effectiveness of the communication of such matters.

The AuSB expects EOM in relation to extra-ordinary circumstances (specific to COVID-19) disclosures about the implications for the entity that the auditor deemed fundamental to the financial report and meets the criteria set in definition. The EOMs were to draw users' attention to a note in the financial report which describes:

- The subsequent event regarding the significant uncertainty of the economic environment as at the date of the signing of the financial statements (*mainly 2077 year ends*).
- The impact on operations to date and how the entity has considered the uncertainty in the preparation of the financial report.

It is thus relevant for the auditor to maintain a higher degree of professional skepticism especially for the transactions accounted during the period of COVID-19.

Alternative and additional audit procedures/considerations

While forming an opinion on financial information pertaining to extraordinary circumstances, majority of the auditor of hardly hit sector clients would face multiple situations of choices and decision making about audit conclusion and reporting.

Suppose, you have already qualified your opinion and you want to include the different matter in EOM, the possible way out would be as follows:

As detailed in NSA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report an EOM is only appropriate to draw attention to items which are adequately disclosed in the financial report. If a matter is not adequately disclosed, the auditor does not include an EOM on this matter and considers the impact on the auditor's opinion.

If the auditor identifies a matter which meets the definition of an EOM and has also concluded a modified opinion is required due to a matter which is unrelated to the EOM, the auditor's report can include the modified opinion and the EOM.

Special Consideration in group Audit

The uncertainty caused by a pandemic like Covid-19 is likely to cause many auditors having to include an emphasis of matter in their report highlighting on the uncertainty caused. Due to the travel restrictions, the group auditors may no longer be able to visit component sites as part of the evaluation of the work of component auditors. It is, thus, important that auditors consider carefully whether it is necessary to include an emphasis of matter paragraph, based on the individual circumstances of each components to be consolidated.

Involvement of and communication with the Client (Management/TCWG)

There are high probabilities of unique presentations and disclosures being fundamental to readers judgement in notes to accounts for the financial reporting pertaining to reporting period ending on midst of extraordinary economic scenarios. If the auditor expects to include an Emphasis of Matter in the auditor's report due to such circumstances, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.

The communication enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary.

Illustrations/Case studies

Example 1:

An emphasis of matter paragraph might relate to property valuations where valuers specifically refer in their reports on material uncertainty related to COVID-19 and the management has accordingly disclosed this in the financial statements. The inclusion of an emphasis of matter paragraph does not mean that the auditors believe that the valuation in the financial statements is inappropriate; the auditors are simply highlighting the disclosed material uncertainty as they believe that the information is important for users seeking to understand the financial statements. Reporting an emphasis of matter is not the only possible outcome in this situation; the impact on the auditor's report will depend on the auditor's assessment of the facts and circumstances in each case.

XXX