Tasmanian Audit Office

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Impact of COVID-19 on financial statement audit reports

This article discusses the impact COVID-19 may have on our audit reports on financial statements (audit reports), particularly where COVID-19 has interrupted an organisation's business activities and/or disrupted the usual way of working.

COVID-19 has not spared anyone from its grip. Its impact on organisations and communities is still evolving and is broad. When the COVID-19 outbreak was declared a pandemic in March 2020 in Australia, many organisations, both in the public and private sectors, enthusiastically encouraged their employees to work from home. This resulted in significant changes to usual business activities.

The timing of COVID-19 restrictions has exposed organisations who are highly dependent on people performing manual internal controls to an increased risk of control breakdowns. Though, this is not to say that an organisation with automated controls may not also be effected. For many organisations, it is highly likely that internal controls which were operating effectively prior to the outbreak, are not operating in the same way anymore.

As auditors, we are not expected to make any modification to our audit reports for the change in the control environment or systems, as these form part of the operations of an organisation. Audit findings that relate to the internal processes of an organisation, including deficiencies or recommendations for improvement, are not communicated through an audit report but rather through a management letter which is provided to management and those charged with governance.

In contrast, where there is a matter that has a material impact on an organisation's financial report, such as a material misstatement, depending on its pervasiveness, we are likely to modify the audit report.

Where we wish to just draw attention to a matter to ensure users of the financial report are suitably informed, this is done by including more commentary in the auditor's report rather than modifying the opinion expressed therein. This includes the addition of an Emphasis of Matter or Other Matter paragraph. If the matter relates to an area of significance already reported in the Key Audit Matter (KAM) section of the auditor's report, then we will include additional commentary there.

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Inability to value non-financial assets

In the current circumstances, the valuation of non-financial assets due for revaluation may prove problematic, and many organisations may not be able to undertake a comprehensive valuation during the current year.

The impact on the audit report for an organisation unable to complete a comprehensive valuation during the current year will depend upon many factors. Where alternative valuation procedures cannot be performed in the current year and the last valuation is only a couple of years old and management can substantiate there is no material difference in the fair value of the assets as at reporting date, the audit report may only need to include additional comments drawing attention to the valuation shortcoming. This could be by way of an Emphasis of Matter, or more likely within the related KAM, as such items are often identified as areas of audit significance. However, if the valuation was long overdue and the cumulative effect of interim indexing is significant, or the matter had previously been raised in the prior year as an area of concern, the outcome could result in a qualified opinion.

Auditor's professional judgement

With the significant downturn in current economic conditions and the uncertainty as to how long the COVID-19 recovery phase will last, some organisations may face a prolonged decline in their revenue. Similarly, other organisation may face difficulties in collecting their receivables. Situations such as these could cast doubt on an organisation's ability to meet its budget, its ability to meet its short term obligations, or even its ability to continue as a going concern.

As a result, based on the auditor's professional judgement, such matters may need to be drawn to the attention of users of the financial report, and this would usually be by way of an Emphasis of Matter. Where such matters are assessed as having a material but not pervasive impact on the financial report, the auditor would likely qualify the audit opinion. In extreme situations, where misstatements are found to be both material and pervasive to a financial report, the auditor would be required to issue an adverse opinion.

On a final note, it is worth remembering that before any audit opinion is modified, we will always communicate the identified matters with management and those charged with governance to try and reach a resolution. Ensuring that a financial report presents fairly, or gives a true and fair view, is always our first priority.

For further information on COVID-19 guidance on auditing, refer to the following link:
https://www.auasb.gov.au/Publications/Coronavirus-COVID-19-Guidance.aspx

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