



PUBLIC ACCOUNTANTS AND AUDITORS BOARD

STAFF ALERT 01/2020

ACCOUNTING AND AUDIT IMPLICATIONS ARISING FROM THE COVID-19 PANDEMIC

The World Health Organisation (WHO) has declared COVID-19 a world pandemic and the Government of Zimbabwe has also declared COVID-19 a national disaster. COVID-19 is causing sharp and large shocks to the global economy and the local economy is no exception. Uncertainty about the immediate outlook for many entities has increased sharply. This has consequences for entities proposing to report results in the coming months, and for their auditors. All financial report preparers and audit practitioners should consider the impact of COVID-19 on interim and annual financial reports arising from this major global risk.

In line with pronouncements by other accountancy and audit regulators across the globe and related international developments, the Public Accountants and Auditors Board (PAAB) has noted that entities, accountants and auditors may face practical difficulties in preparing financial statements and in carrying out audits of same. The PAAB expects this may potentially affect the way in which auditors carry out their audits of entities, given various measures which are being implemented so far at the corporate levels which in time may also be introduced more widely depending on developments and responses, and these include restrictions on travel, meetings and access to entity sites in some locations and jurisdictions and the need to develop alternative audit procedures to gather sufficient, appropriate audit evidence.

The PAAB is cognisant that various and indeed necessary mitigatory measures against the impact of COVID -19 outbreak may disrupt the business operations of entities and the financial reporting process may also be impacted. Preparers of financial statements and their auditors should proactively discuss these matters to understand whether there is an impact on the entities' reporting timetable and the audit processes.

Financial statements and audits of same should continue to comply fully with required standards. In the circumstances, additional time may be required to prepare financial statements and complete audits of same and it is important that this is taken. Where relevant and applicable, entities, should evaluate and if considered appropriate approach and engage their regulators for reasonable extensions to reporting timelines. This alert does not create an automatic sanction by other regulators of any possible extensions in financial reporting timelines.

The PAAB will be holding weekly calls with relevant fellow regulators and the largest Zimbabwe audit firms and will increase the frequency if needed. The PAAB is actively considering what additional advice and guidance may be necessary to support the accountancy profession in the next few months.

Financial Reporting Considerations.

Key considerations by preparers of financial statements may include, but are not limited to:

- How to assess whether the impacts of COVID-19 are material to the entity and its financial statements?
- When to adjust the financial statements, including where events continue to develop after the reporting period ends?
- What disclosures might be required of the entity, (including disclosure obligations for listed entities)?
- What type of financial impact might COVID-19 have on an entity these may include:
 - Asset impairment/ changes in assumptions for impairment testing;
 - Changes in fair values of assets;
 - Changes in expected credit losses for loans and other financial assets;
 - Potential provisions and contingent liabilities; and
 - Material uncertainties that cast significant doubt on the ability to continue as a going concern such as extent of the impact on future costs and revenues and unknown duration of the impact must be considered in line with the relevant financial reporting standards.
- Consider relevant standards to determine appropriate disclosures. Preparers should, where considered material, disclose information about assumptions regarding the future and other major sources of estimation uncertainty.
- Where there is no financial impact in the current reporting period, entities should also consider making disclosures of their key assumptions as to why the impact of COVID-19 is not considered given that it is pervasive.
- Events after the reporting period; conditions may evolve rapidly, and entities are required to consider whether an event after the reporting period confirms conditions existing before reporting date.

Audit Considerations.

In this period, auditors, will need to consider the impact of COVID-19 on:

- The auditor's risk assessment, and whether it needs to be revised;
- How the auditor gathers sufficient appropriate audit evidence, recognising that the planned audit approach may need to change, and alternative procedures developed, particularly in group audit engagements. The auditor must be able to gather the necessary evidence to be able to report or consider modifying their audit opinion;
- How the group auditor proposes to review the work of component auditors to meet the requirements in the relevant standards, including considering whether alternative procedures can be used: for example, where travel is restricted;

- The auditor’s assessment of going concern and the prospects of an audited entity, given that uncertainty about the global economy and the immediate outlook for many entities has increased;
- The adequacy of disclosures made by management about the impact on the entity of COVID-19, so that users of the financial statements are properly informed, and the entity’s prospects and how they might be affected are described, recognising the high degree of uncertainty; and
- The need for the auditor to re-assess key aspects of their audit as a result of the fast-changing situation, recognising that this assessment will take place right up to the point of signing the auditor’s report, and may need the provision of further evidence and information by management. Where the current circumstances have had a significant impact on the delivery of the audit, the auditor will need to consider how to explain this in their report, for example, by reporting this as a key audit matter.

Auditors will also need to engage with entities they audit to ensure that:

- The auditor sets clear expectations as to the level of disclosure they expect to see in annual reports to communicate the impact and risk of COVID-19 on the entity; and
- Entities, and in particular their audit committees, understand it is vital that auditors have sufficient time and support to carry out their work to an appropriate standard, including re-assessing work done to reflect changed circumstances – in some cases, this may need entities to reconsider their reporting deadlines. Where auditors are unable to obtain sufficient appropriate audit evidence to support their audit, they will need to consider necessary modifications to their audit opinion.

The purpose of this PAAB Staff alert is to provide guidance on some of the issues financial report preparers and auditors should consider. It is important that directors and those charged with governance (TCWG), Chief Executive Officers, Chief Financial Officers /preparers and auditors of financial statements, discuss and assess the impact of COVID-19 at an early stage of the financial reporting and audit process. COVID-19 gives rise to new and rapidly changing conditions that preparers and auditors may not have previously encountered. Auditors should be alert and exercise professional scepticism about the potential for these conditions to give rise to possible financial reporting misstatements.

Admire Ndurunduru
Secretary

24 March 2020

About the Public Accountants and Auditors Board

The Public Accountants and Auditors Board’s mission is to promote transparency and integrity in business through effective regulation of the accountancy profession in accordance with internationally recognised standards.