

TECHNICAL PRONOUNCEMENT NO. 2 OF 2020

(NBAA)

THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS TANZANIA



COVID 19 AND ITS IMPACT ON AUDITING

1.0 INTRODUCTION

COVID-19 is an infectious disease caused by a novel Corona virus. It is exponentially spreading illness and causing deaths to citizens throughout the globe and has been recognized as a global pandemic by the World Health Organization (WHO). Various governments are taking drastic measures to contain the spread of the corona virus.

In Tanzania, the Government has responded by putting in place a number of measures including shutting down of all primary and secondary schools, colleges and other higher learning institutions, cancellation of seminars and conferences across the country, limiting public gatherings, suspension of all international flights, quarantine requirements as well as providing guidance on hygiene and social distancing.

COVID-19 is impacting businesses significantly such as educational institutions, tourism, hotels, aviation industry, catering, importation from lockdown countries and exports of local produce, and brings with it several issues and challenges to preparers of financial statements and auditors on various aspects relating to preparation and audit of the financial statements.

The work of auditors has been impacted by the increasing effect of the COVID-19 pandemic. Risks of material misstatement that are new may be created due to uncertainty and unpredictability, or intensified, in the circumstances. Auditors may not have considered these risks or may have considered identified risks differently, when planning for audit.

Entities being audited are adjusting to the changing environment relating to their businesses and operations, including processes of financial reporting, disclosures in financial statements and their ability to maintain operations in the foreseeable future. Similarly, on how they obtain sufficient appropriate audit evidence on which to base the audit opinion, auditors have to adjust, amid challenges relating to, among other things, access to people or information, revising the identification and assessment of certain risks of material misstatement, and changing planned audit procedures or performing alternative or additional audit procedures as may be appropriate.

Auditors may also find that the current circumstances bring opportunities to do things differently, for example, by using new, or flexing the use of existing technology resources.

Please note that this public notice does not contain an exhaustive list of auditing considerations, and their applicability will depend on the prevailing facts and circumstances. It is the responsibility of the Auditor to review the relevant auditing requirements based on their specific environment and guidance of applicable auditing standards.

2.0 IMPACT ON AUDITING

The Board has ascribed a number of aspects in relation to application of auditing standards within the country. This public notice aims at providing guidance to auditors of financial statements on auditing requirements that should be considered when addressing the impact of COVID-19 on the entity’s operations and financial statements.

Some of the significant areas that may need to be considered in designing and performing audit procedures to obtain sufficient appropriate audit evidence, and to report accordingly are highlighted below.

S/N	Relevant ISA	Specific Consideration
1.	Identifying and assessing risks of material misstatement ISA 315 (Revised)	<ul style="list-style-type: none"> • The impact on the planned audit approach of new or revised risks that have arisen because of COVID-19. • Possible revision of risk assessments already made. <p>The impact of changes to the auditor’s understanding of the entity’s system of internal control, including:</p> <ul style="list-style-type: none"> • The control environment; and • Changes to the planned reliance on controls in determining responses to identified risks of material misstatement.
2.	Responding to Assessed Risks (ISA 330)	<p>Changes needed to planned responses arising from the impact of environmental developments, such as the ability to obtain sufficient appropriate audit evidence (e.g. there may now be access issues or attendance at a stock count may not be possible for which alternative procedures may be needed.)</p> <p>Greater focus on:</p> <ul style="list-style-type: none"> • The financial statements closing process (in particular journal entries and other adjustments made). • The auditor’s evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made. • The auditor’s conclusion on whether sufficient appropriate audit evidence has been obtained.
3.	ISA 540 (Revised) Auditing Accounting Estimates	<p>Greater focus on:</p> <ul style="list-style-type: none"> • Changes to regulatory factors that may affect accounting estimates (e.g. initiatives aimed at

		<p>sustainable solutions for temporarily distressed debtors in the context of the pandemic).</p> <ul style="list-style-type: none"> • Whether assumptions are appropriate in the circumstances and in the context of the applicable financial reporting framework (e.g. cash flow forecasts and discount rates). • Whether data being used by the entity is relevant and reliable. • The effect of changing inherent risk factors, in particular uncertainty.
4.	The auditor's responsibilities relating to subsequent events (ISA 560)	<p>Considering that shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor's report.</p> <p>The identification of any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework.</p>
5.	The auditor's responsibilities relating to going concern (ISA 570 (Revised))	<p>COVID-19 is resulting in significant operational disruption and presents an existential threat for many businesses. Entities and audit teams need to consider the implications on the assessment of going concern and viability in the financial report and whether these circumstances will result in prolonged operational disruption which will significantly erode the financial position of the entity or the entity may cease to be a going concern.</p> <p>The impact of COVID-19 (i.e. whether it has materially impacted or is it expected to materially impact) on the auditor's evaluation of management's assessment of going concern.</p> <p>Reconsideration of the appropriateness of the use of the going concern basis for the preparation of the financial statements, or consequential modification to the auditor's report as needed.</p> <p>Auditors need to:</p> <ul style="list-style-type: none"> • assess whether a material uncertainty exists as a result of Covid-19 and impact on that business and assessing a level of disclosures in the financial statements and eventually taking these in the accounting when forming an opinion. • Check if the appropriate accounting basis has been applied and accounting implication appropriately dealt with were the use of going concern assumption is not appropriate.

		<ul style="list-style-type: none"> • In cases where the entity depends on financial support or guarantee of the parent, auditor needs to consider the ability and intent of that parent to support or guarantee under Covid-19 situation.
6.	Written Representations (ISA 580)	<ul style="list-style-type: none"> • As per ISA 580, the auditor should obtain written representations from the management regarding the various estimates and assessments made by the management. The written representations should be exhaustive, containing the occurrence, methods of measurement, completeness of transactions recorded and the disclosure of financial impacts in the financial statements. Auditors need to assess whether any specific representations may be required to be obtained from the Management in relation to Managements' assessment of the COVID-19 pandemic on the financial statements for the [reasonably] foreseeable future. • Representation will differ depending on whether there is material uncertainty or not or whether entity is a going concern or not.
7.	Group audits (ISA 600)	If applicable, reassessment of the group auditor's planned procedures in relation to the work of component auditors, such as the ability of the group auditor to appropriately review (or be involved in) the work of component auditors, i.e., whether alternative procedures need to be considered, and the impact on the sufficiency and appropriateness of audit evidence on which to base the group audit opinion.
7.	Forming an opinion and reporting on financial statements (including key audit matters) (ISA 700 (Revised) and ISA 701))	<p>Focusing on matters to be able to conclude, including whether all key aspects of the audit have been appropriately addressed, such as:</p> <ul style="list-style-type: none"> • Areas that may require management to provide further evidence due to the fast-changing nature of this issue. • New uncertainties introduced as a result of COVID-19, e.g. have appropriate changes been made to recognize any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations); • The impact of new or changed laws or regulations on the financial statements. • Going concern conclusions. • Circumstance where auditors fail to obtain sufficient evidence necessary to conclude audit. <p>Where applicable, new key audit matters may be included in the auditor's report (e.g. matters that rise to the level of requiring significant auditor attention owing to the impact of COVID-19) pandemic.</p>

8.	Other Information (ISA 720 (Revised))	<p>Any inconsistencies between the information provided by the entity in its annual report and in the financial statements about the impact of developments arising from COVID-19 pandemic. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide more details, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit.</p> <p>Also audit administrative matters including need to plan well on the nature, timing and extent of the audit procedures. Deadlines and project management issues are key to be monitored by auditors.</p> <p>Need to ensure quality of the audit reports is not compromised. To expect more scrutiny from regulators and/or general public if auditors get it wrong despite of Covid-19 situation.</p>
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2.0 IMPORTANT REMINDER

The Board would like to urge auditors to be alert and to exercise professional skepticism about the potential for each COVID 19 impacting conditions to give rise to possible financial reporting misstatements. Regardless of the challenges and uncertainties, there should be no any dilution or non-compliance with the auditing standards in carrying out the audits.

Furthermore, the Board reminds preparers, auditors, other stakeholders and the general public to adhere to all Government's directives on how to control and avoid the spread of COVID 19 pandemic.

For more information, contact:

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