

Coronavirus (COVID-19): considerations for auditing going concern



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PRESENTED BY
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The webinar will commence shortly

Today's presenter



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Context

- Unprecedented global economic impact
- Lockdowns and business closures
- Restrictions on international travel
- Long term impacts unclear



Going concern basis of accounting

- Management assessment
- High bar to depart from the going concern basis
- More material uncertainties are likely



Auditing going concern

- Follow the requirements of ISA 570 – note if in the UK, ISA (UK) 570 was revised in September 2019. This is applicable for audits of periods commencing on or after 15 December 2019 or where early adopting.
- Typically start from management's assessment
- Management & finance teams likely resource/time constrained so important to have early communications on approach and requirements
- Following slides outline specific considerations for the auditor...

Business impact

- Business model changes?
- Supply chain impact?
- Legal/contractual issues?
- Significant staff absences?
- Customers impacted?
- Cash flow issues?
- Sector specific impact?
- Heightened pre-existing risks?



Liquidity and solvency

- Sources of cash flows?
 - Revenue from trading
 - Government support
 - External financing
 - Insurance pay out?
- Covenant terms?
- Restarting costs?
- Fixed vs flexible costs?
- Feasibility of savings forecast?



Government support

- Will the business be eligible and meet conditions?
- Timing of support and period covered?
- Repayment issues?



Management's assumptions on timelines

- Timelines for restrictions lifting?
- Secondary outbreaks?
- Permanent changes to business model?
- Recovery type?



Testing the model

- How complex is the model?
- Potential for mechanical errors?
- Specialist input needed?



Stress testing projections

- Impact of a second wave
- Risks to viability
 - Business model change
 - Consumer behaviour changes
- Covenants and regulatory risks
- Contingent liabilities
 - Guarantees being called
- Letters of support
 - If a parent company, what would the cumulative effect of multiple subsidiaries needed support?
- Dividends – planned or likely
- Reverse stress testing



Concluding on going concern

- Judgement required – management and auditors may not be able to predict the outcome of scenarios
- More material uncertainties likely but could rise to adverse or disclaimer opinions
- Reporting help available – see resources tab





Q&A

Stay up to date

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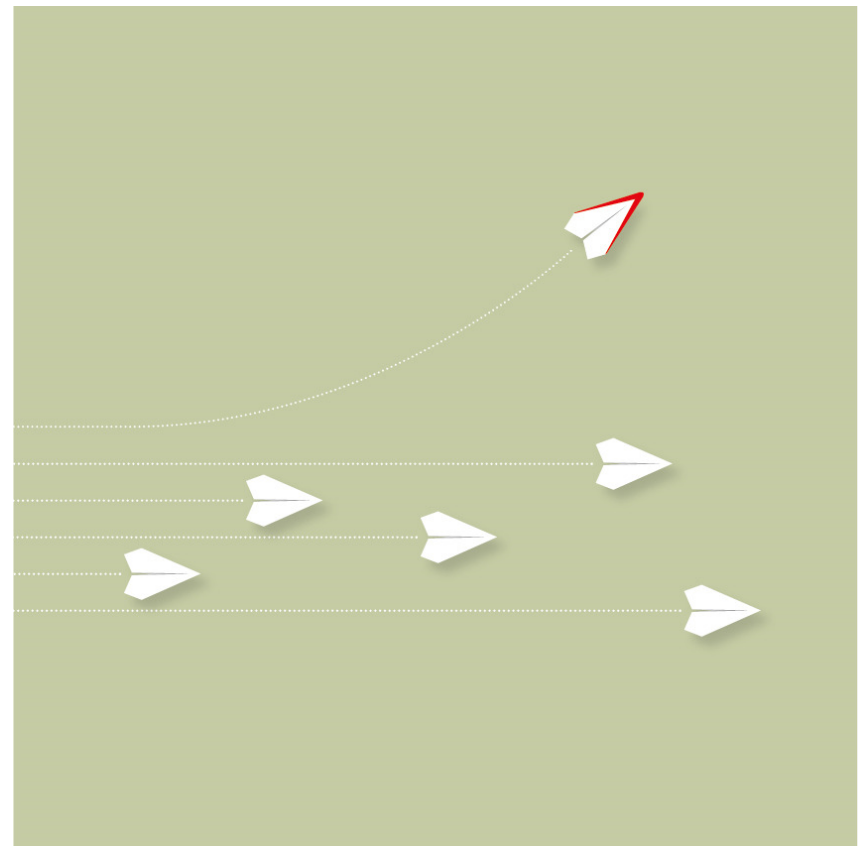
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