



COVID-19: FREQUENTLY ASKED QUESTIONS ON AUDITING

BACKGROUND

The varying travel restrictions both locally and abroad that have been set in place following the outbreak of the Coronavirus Disease 2019 (COVID-19) pose new challenges for auditors. In addition, the onset of the COVID-19 outbreak may impact the operations of entities that are being audited and this in turn will affect the risk assessment and the nature, timing and extent of work to be performed by auditors.

Despite these challenges, auditors are still expected to conduct the audit in accordance with the approved standards on auditing in Malaysia and International Standards on Auditing. Therefore, auditors are expected to ensure that they have sufficient time and resources to perform the affected audit engagements. Where necessary, auditors may need to communicate with management and/or those charged with governance to consider applying for extension of time to lodge financial statements and reports in accordance with Section 259(2) of the Companies Act 2016 or other applicable regulations.

Auditors will need to consider the impact of the COVID-19 outbreak on audit work performed in accordance with the following non-exhaustive list of International Standards on Auditing (ISAs):

1. ISA 230 *Audit Documentation*
2. ISA 260 (Revised) *Communication with Those Charged with Governance*
3. ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*
4. ISA 320 *Materiality in Planning and Performing an Audit*
5. ISA 330 *The Auditor's Responses to Assessed Risks*
6. ISA 500 *Audit Evidence*
7. ISA 501 *Audit Evidence - Specific Considerations for Selected Items*
8. ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*
9. ISA 560 *Subsequent Events*
10. ISA 570 (Revised) *Going Concern*
11. ISA 580 *Written Representations*
12. ISA 600 *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*
13. ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*
14. ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
15. ISA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*
16. ISA 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
17. ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

The audit work to be performed may vary depending on the financial period covered by the audit due to the different stages of development of the COVID-19 outbreak.



BACKGROUND (CONTD.)

This document addresses frequently asked questions (FAQs) on audit related matters in respect of the impact of the COVID-19 outbreak received by staff of the Malaysian Institute of Accountants (the Institute) from auditors. Answers to the FAQs have been prepared by the staff of the Institute and are not necessarily the views of the Institute.

The FAQs are categorised as follows:

1. General considerations in an audit
2. Group audits
3. Going concern
4. Subsequent events
5. Auditor's report

Auditors are also expected to continuously exercise professional judgement in determining if the FAQs are both, appropriate and relevant to their circumstances.

QUESTIONS AND ANSWERS

General considerations in an audit

Q1.	What impact does the COVID-19 outbreak have on planning and performing an audit?
	<p><u>Impact on the assessment of audit risks and procedures</u></p> <p>As risk identification, assessment and responses are iterative and dynamic in nature, auditors should apply the specific requirements of the ISAs in the ensuing paragraphs.</p> <p>Paragraph 31 of ISA 315 (Revised) states the following: “The auditor’s assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.”</p> <p>Paragraph A151 of ISA 315 (Revised) provides the following application guidance: “During the audit, information may come to the auditor’s attention that differs significantly from the information on which the risk assessment was based. For example, the risk assessment may be based on an expectation that certain controls are operating effectively. In performing tests of those controls, the auditor may obtain audit evidence that they were not operating effectively at relevant times during the audit. Similarly, in performing substantive procedures the auditor may detect misstatements in amounts or frequency greater than is consistent with the auditor’s risk assessments. In such circumstances, the risk assessment may not appropriately reflect the true circumstances of the entity and the further planned audit procedures may not be effective in detecting material misstatements. See ISA 330 for further guidance.”</p> <p>Paragraph 25 of ISA 330 states that “based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate.”</p> <p>Therefore, the auditor should assess if the impact of the COVID-19 outbreak revises any risks previously identified or gives rise to other risks of material misstatements. Auditors should also assess whether audit procedures (including assessment on the effectiveness of internal control) and judgements arising from the impact of the COVID-19 outbreak on the financial statements of the reporting entity would give rise to a key audit matter in accordance with ISA 701.</p>

QUESTIONS AND ANSWERS (CONTD.)

General considerations in an audit (Contd.)

Where applicable, the auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially¹.

Access to client's premises, personnel and documents

Paragraph 6 of ISA 500 states that “the auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.”

On 16 March 2020, the Malaysian Government announced a nationwide Movement Control Order from 18 to 31 March 2020 following a spike in COVID-19 cases in Malaysia. On 25 March 2020, this period has been extended to 14 April 2020. Consequently, auditors are unable to physically access their clients' premises to obtain sufficient appropriate audit evidence. Auditors are also unable to similarly access their own premises. Accordingly, auditors may consider alternative ways to obtain sufficient appropriate audit evidence such as the following:

- a. External confirmations may be obtained directly from the confirming party in electronic form after validating the e-mail address as genuine and/or following up with a telephone conversation. The responses received electronically, for example, by facsimile or electronic mail, involve risks as to reliability because proof of origin and authority of the respondent may be difficult to be established, and alterations may be difficult to be detected.
- b. Examining records or documents in electronic form. Nonetheless, audit evidence in its original document form is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been transformed into electronic form, the reliability of which depends on internal controls of the reporting entity over the preparation and maintenance of financial reporting.

If the auditor is unable to obtain sufficient appropriate audit evidence prior to the signing date of the auditor's report, the auditor shall modify the audit opinion in accordance with ISA 705 (Revised). Please also refer to Question 9 for further details.

Auditors are reminded to prepare and assemble audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit in order to understand the audit evidence obtained, including those obtained from the alternative procedures performed during the COVID-19 outbreak, as required by ISA 230.

¹ ISA 320, paragraph 12

QUESTIONS AND ANSWERS (CONTD.)

General considerations in an audit (Contd.)

Physical inventory counting

ISA 501 requires the auditor to attend physical inventory counting in order to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory if the inventory is material to the financial statements².

If the auditor is unable to attend physical inventory counting during the movement control period, the auditor should consider making or observing some physical counts on an alternative date and perform audit procedures on intervening transactions³.

In the event that the attendance at physical inventory counting is impracticable (for instance, inventory is held in a location that may pose threats to the safety of the auditor), the auditor should consider performing alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory such as:

- a. Inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting;
- b. Reliance on cyclical counts; or
- c. Obtaining direct assistance by internal auditors.

If it is not possible to do so, the auditor shall consider the impact on the auditor's report in accordance with ISA 705 (Revised)⁴. Please also refer to Question 9 for further details.

Accounting treatment and disclosures in the financial statements by the reporting entity affected by the COVID-19 outbreak

The audit of a reporting entity affected by the COVID-19 outbreak would, amongst others, entail consideration of the audit of accounting treatment and disclosures in the financial statements based on the applicable financial reporting framework, including considerations of whether the COVID-19 outbreak is an adjusting or non-adjusting event and where applicable, the impact on impairment of assets, write down of inventory to net realisable value, derecognition of deferred tax assets, fair value adjustments, going concern and related disclosures both within and outside the financial statements in accordance with ISA 540 (Revised), ISA 570 (Revised) and ISA 720 (Revised).

² ISA 501, paragraph 4

³ ISA 501, paragraph 6

⁴ ISA 501, paragraph 7

QUESTIONS AND ANSWERS (CONTD.)

General considerations in an audit (Contd.)

ISA 540 (Revised) also requires the auditor to evaluate whether the relevant methods, significant assumptions, source of data and its related disclosures are appropriate in the context of the applicable financial reporting framework⁵, in particular, fair value measurement and impairment of assets.

In addition, paragraph 24 of ISA 330 requires the auditor to perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the financial reporting framework. This includes evaluation of appropriateness of the classification of current and non-current assets and liabilities in view of the impact of the COVID-19 outbreak.

Disclosures of other information included in the annual report

ISA 720 (Revised) requires the auditor to read and consider the other information included in the annual report because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

Communications with those charged with governance

ISA 260 (Revised) requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor⁶.

ISA 260 (Revised) also requires the auditor to communicate with those charged with governance on significant findings from the audit. This includes communication on⁷:

- a. Changes in planned scope and timing of the audit based on the revised consideration of assessed risk⁸.
- b. Significant difficulties encountered during the audit.
- c. The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- d. Circumstances that affect the form and content of the auditor's report.

⁵ ISA 540 (Revised), paragraphs 28 - 29

⁶ ISA 260 (Revised), paragraph 15

⁷ ISA 260 (Revised), paragraph 16

⁸ ISA 260 (Revised), paragraph A26

QUESTIONS AND ANSWERS (CONTD.)

Group audits

<p>Q2.</p>	<p>Does a group auditor need to perform the audit of a component of which the operations are at a location affected by the COVID-19 outbreak?</p>
	<p>Paragraph 26 of ISA 600 states that “for a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, shall perform an audit of the financial information of the component using component materiality.”</p> <p>Paragraph 27 of ISA 600 further states that “for a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances, the group engagement team, or a component auditor on its behalf, shall perform one or more of the following:</p> <ul style="list-style-type: none"> (a) An audit of the financial information of the component using component materiality. (b) An audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks of material misstatement of the group financial statements. (c) Specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements.” <p>Where there exists a limitation of scope on the audit, refer to Question 9 for further details.</p>
<p>Q3.</p>	<p>What is the nature, timing and extent of the involvement by a group auditor in the work performed by a component auditor?</p>
	<p>Paragraph 30 of ISA 600 states the following:</p> <p>“If a component auditor performs an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor’s risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by the group engagement team’s understanding of the component auditor, but at a minimum shall include:</p> <ul style="list-style-type: none"> (a) Discussing with the component auditor or component management those of the component’s business activities that are significant to the group; (b) Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and (c) Reviewing the component auditor’s documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor’s conclusion with regard to the identified significant risks.”

QUESTIONS AND ANSWERS (CONTD.)

Group audits (Contd.)

	<p>During the review of the component auditor’s audit documentation, according to paragraph A61 of ISA 600, what parts of the audit documentation of the component auditor that will be relevant to the group audit may vary depending on the circumstances. The focus of the group auditor is usually on audit documentation that is relevant to significant risks of material misstatement of the group financial statements. The extent of review may be affected by the fact that the component auditor’s audit documentation has been subjected to the component auditor’s firm’s review procedures.</p> <p>The assessment of audit risk arising from the impact of COVID-19 outbreak mentioned in Question 1 above including the risk of fraud may also apply here to the extent that the audit risks arising from the component impact the group financial statements.</p>
<p>Q4.</p>	<p>What is the expected communication between the group auditor and component auditor?</p>
	<p>Paragraph 42 of ISA 600 states that the group engagement team shall evaluate the component auditor’s communication (see paragraph 41 below) and that the group engagement team shall:</p> <ul style="list-style-type: none"> (a) Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and (b) Determine whether it is necessary to review other relevant parts of the component auditor’s audit documentation (refer to paragraph A61 of ISA 600). <p>In practice, group audit communication is often performed in writing through letters and/or e-mails. Subsequent face-to-face meetings or conference calls could be performed to follow-up on instructions and clarify any matters or issues faced by the component auditors. With the advent of technology and telecommunication speed, the use of video conferencing and other use of technology including document collaboration could be a more effective communication and media for information exchange.</p> <p>Paragraph 41 of ISA 600 states the following: “The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team’s conclusion with regard to the group audit. Such communication shall include:</p> <ul style="list-style-type: none"> (a) Whether the component auditor has complied with ethical requirements that are relevant to the group audit, including independence and professional competence; (b) Whether the component auditor has complied with the group engagement team’s requirements;

QUESTIONS AND ANSWERS (CONTD.)

Group audits (Contd.)

	<ul style="list-style-type: none"> (c) Identification of the financial information of the component on which the component auditor is reporting; (d) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements; (e) A list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team); (f) Indicators of possible management bias; (g) Description of any identified significant deficiencies in internal control at the component level; (h) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (i) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and (j) The component auditor's overall findings, conclusions or opinion." <p>The group auditor should also consider the impact of going concern (in Question 7) and subsequent events (in Question 8) of the component on the group audit.</p>
<p>Q5.</p>	<p>What are the ways for a group auditor to review the work performed by a component auditor during the COVID-19 outbreak?</p> <p>Under normal circumstances, the group auditor may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation⁹.</p> <p>As the COVID-19 outbreak has resulted in audit firms restricting their employees from travelling, the group auditor should consider the implications of these travel restrictions on their work in evaluating and reviewing the work of the component auditor. In accordance with ISA 230, an audit file includes one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.</p> <p>The group auditor may consider whether alternative procedures can be put in place allowing them to demonstrate their review and evaluation of the component auditor's work and hence to meet the requirements of ISA 600.</p>

⁹ ISA 600, paragraph A58

QUESTIONS AND ANSWERS (CONTD.)

Group audits (Contd.)

	<p>For example, the group auditors may:</p> <ul style="list-style-type: none"> • Request the component auditors to grant access to the former in reviewing those files remotely if the files of component auditors are in electronic form. • Request the component auditors to send a copy of those files for the group auditors to review. • Request the component auditors to discuss the work with the component auditor via video conferencing. • Request the component auditors to complete a detailed questionnaire. • Request management to provide information directly to the group auditor to allow for testing, if the finance systems are integrated at the head quarter. • Request the component auditors to provide a detailed reporting memorandum that includes significant risks of material misstatement and indicators of possible management bias on significant estimates and judgements.
<p>Q6.</p>	<p>What is the responsibility of the group auditor in relation to the work performed by the component auditor?</p> <p>Paragraph 44 of ISA 600 states that “the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion.”</p> <p>Paragraph A62 of ISA 600 has the following application guidance: “If the group engagement team concludes that sufficient appropriate audit evidence on which to base the group audit opinion has not been obtained, the group engagement team may request the component auditor to perform additional procedures. If this is not feasible, the group engagement team may perform its own procedures on the financial information of the component”.</p>

QUESTIONS AND ANSWERS (CONTD.)

Going concern

Q7.	<p>What is the impact of the COVID-19 outbreak on the auditor in evaluating management’s assessment of the entity’s ability to continue as a going concern?</p>
	<p>The auditor’s responsibility in relation to going concern is to evaluate 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 whether a material uncertainty related to going concern exists¹⁰.</p> <p>In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework and the auditor shall ensure that management’s assessment period covers at least twelve months¹¹.</p> <p>Paragraph 11 of ISA 570 (Revised) states that “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.”</p> <p>Paragraph A7 of ISA 570 (Revised) provides application guidance as follows: “ISA 315 (Revised) requires the auditor to revise the auditor’s risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor’s assessment of risk. If events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern are identified after the auditor’s risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor’s assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor’s further procedures in response to the assessed risks. ISA 330 establishes requirements and provides guidance on this issue.”</p> <p>The COVID-19 outbreak has varying degrees of financial and operating impact within various industries.</p> <p>Examples of events or conditions that, individually or collectively, may cast significant doubt on the reporting entity’s ability to continue as a going concern are included in paragraph A3 of the ISA 570 (Revised).</p>

¹⁰ ISA 570 (Revised), paragraphs 17 to 18

¹¹ ISA 570 (Revised), paragraph 13

QUESTIONS AND ANSWERS (CONTD.)

Going concern (Contd.)

<p>In this regard, the auditor shall perform the following procedures¹² and take into account the impact of the COVID-19 outbreak:</p> <ol style="list-style-type: none">To determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern. The auditor shall also evaluate management's plans for future actions in relation to its identified going concern issues. If the management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its assessment.To consider whether any additional facts or information (considering that the development on the COVID-19 outbreak is updated on a daily basis) have become available since the date on which management made its assessment.To evaluate the reliability of the underlying data generated and assumptions used in preparing the cash flow forecast (refer to ISA 540 (Revised) for further details).To request written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans (refer to ISA 580 for further details). <p>In situations where the going concern basis is still appropriate but a material uncertainty exists, please refer to Question 11 for further details. On the other hand, in situations where the use of the going concern basis is no longer appropriate, please refer to Question 12 for further details.</p> <p>Where the management is unwilling to make or extend its assessment when requested to so by the auditor, the auditor shall consider the implication for the auditor's report¹³. Please refer to Question 9 for further details.</p>

¹² ISA 570 (Revised), paragraph 16

¹³ ISA 570 (Revised), paragraph 24

QUESTIONS AND ANSWERS (CONTD.)

Subsequent events

Q8.	<p>What is the expected work by auditors on subsequent events affected by the COVID-19 outbreak?</p>
	<p>ISA 560 requires the auditor to determine whether events occurring between the date of authorisation of the financial statements and the date of the auditor's report are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>Auditors are expected to inquire from management and, where appropriate, those charged with governance, on the impact of the COVID-19 outbreak on the financial statements¹⁴ including but not limited to discussion on resilience of the business and cash position and whether there are any unutilised facilities.</p> <p>The auditor shall also obtain sufficient appropriate audit evidence for subsequent events that require adjustment of, or disclosure in, the financial statements¹⁵.</p> <p>Inquiries by the auditor could include, for instance¹⁶:</p> <ol style="list-style-type: none">a. Whether new commitments, borrowings or guarantees have been entered into.b. Whether sales or acquisitions of assets have occurred or are planned.c. Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.d. Whether there have been any developments regarding contingencies.e. Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.f. Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.g. Whether any events have occurred that are relevant to the recoverability of assets. <p>When the volatility and uncertainty of events subsequent to a financial year end are so significant and pervasive that subsequent event procedures are not able to be performed satisfactorily, a limitation of scope on the audit exists. Please refer to Question 9 for consideration of the audit opinion under these circumstances.</p>

¹⁴ ISA 560, paragraph 7(b)

¹⁵ ISA 560, paragraph 6

¹⁶ ISA 560, paragraph A9

QUESTIONS AND ANSWERS (CONTD.)

Auditor's report

<p>Q9.</p>	<p>What is the impact on the auditor's report pertaining to the inability to obtain sufficient appropriate audit evidence?</p>
	<p>The auditor should consider a modification of the audit opinion in accordance with the following paragraphs in ISA 705 (Revised):</p> <ul style="list-style-type: none"> a. Paragraph 7(b) – The auditor shall express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. b. Paragraph 9 – The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. <p>Where the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with ISA 701 or an Other Information section in accordance with ISA 720 (Revised) ¹⁷.</p> <p>Where the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA 700 (Revised) ¹⁸:</p> <ul style="list-style-type: none"> a. Amend the heading "Basis for Opinion" required by paragraph 28 of ISA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and b. Within this section, include a description of the matter giving rise to the modification.
<p>Q10.</p>	<p>What is the impact on the auditor's report pertaining to the omission or inadequacy of disclosure or a misstatement in amount, classification or presentation in the financial statements arising from the impact of the COVID-19 outbreak?</p>
	<p>Misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.</p>

¹⁷ ISA 705 (Revised), paragraph 29

¹⁸ ISA 705 (Revised), paragraph 20

QUESTIONS AND ANSWERS (CONTD.)

Auditor's report (Contd.)

	<p>The auditor should consider a modification of the audit opinion in accordance with the following paragraphs in ISA 705 (Revised):</p> <ol style="list-style-type: none"> a. Paragraph 7(a) – The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. b. Paragraph 8 – The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. <p>Please refer to Question 9 on the requirements under “Basis for Opinion” for further details.</p>
<p>Q11.</p>	<p>What is the impact on the auditor’s report pertaining to the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern?</p> <p>Where there is a material uncertainty related to events or conditions that may cast significant doubt on the reporting entity’s ability to continue as a going concern, there are two scenarios as set out below:</p> <ol style="list-style-type: none"> a. Where there is adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern”¹⁹. b. Where adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised)²⁰.
<p>Q12</p>	<p>What is the impact on the auditor’s report pertaining to the use of going concern basis of accounting is inappropriate?</p> <p>Where the financial statements have been prepared using the going concern basis of accounting but, in the auditor’s judgment, management’s use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion²¹.</p>

¹⁹ ISA 570 (Revised), paragraph 22

²⁰ ISA 570 (Revised), paragraph 23

²¹ ISA 570 (Revised), paragraph 21

QUESTIONS AND ANSWERS (CONTD.)

Auditor's report (Contd.)

Q13.	Should an Emphasis of Matter paragraph be included in the audit report in relation to the COVID-19 outbreak?
	<p>Paragraph 8 of ISA 706 (Revised) states that “if the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided:</p> <ul style="list-style-type: none">(a) The auditor would not be required to modify the opinion in accordance with ISA 705 (Revised) as a result of the matter; and(b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor’s report”. <p>Where no key audit matter is disclosed relating to the COVID-19 outbreak, the auditor may consider it necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised) if the COVID-19 outbreak has had, or continues to have, a significant effect on the reporting entity’s financial position²².</p>

²² ISA 706 (Revised), paragraph A5



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