

# OHIO AUDITOR OF STATE KEITH FABER



**From:** Auditor of State's Center for Audit Excellence

**To:** All IPA Firms

**Subject:** COVID 19 Audit Guidance

**Date:** April 13, 2020

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As you are all likely aware, there has been a flood of different interpretations on accounting and auditing guidance as it relates to the impact or potential impact of the COVID-19 state of emergency. While many of the interpretations have broader guidance there are some articles that can be helpful (including those attached). In an effort to promote consistency, we wanted to share not only the attached articles, but also some additional points related to how Ohio government's financial statements, audit reports, and the related audit procedures may be impacted as a result.

### **Subsequent Event (SE) Disclosures**

We anticipate disclosures (similar to the draft below) related to the impact of COVID-19 will be relatively common and likely should be included in most released reports. Additionally, auditors should include an emphasis of matter paragraph (similar to the draft below) in the opinion related to this disclosure unless well-reasoned working papers are maintained to support not including. Regardless, we recognize each determination needs to be audit specific. Therefore, auditors should discuss with the client to determine if management agrees to modify their note disclosures to include a subsequent event note (if one is not already included). If management modifies to include the disclosure, auditors should not issue a control deficiency for the modification as these are facts that were unknown at the time their financial statements were filed in the Hinkle System. If the client doesn't feel a disclosure is necessary, auditors would evaluate management's reasoning and determine if the facts and circumstances would result in a material misstatement, which in some situations could lead to opinion modifications.

Draft disclosure:

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the [Entity Type]. The [Entity Type]'s investment portfolio and the **remove if no material investments** investments of the pension

and other employee benefit plan in which the **[Entity Type]** participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the **[Entity Type]**'s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

Draft Emphasis of matter:

As discussed in Note X to the financial statements, during 20XX, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the **[Entity Type]**. We did not modify our opinion regarding this matter.

Note: Auditors should evaluate and modify this disclosure based on the circumstances and perceived/ measurable impact at each entity. For instance:

- If bank balances are material and are included in the OPCS, auditors may consider whether there has been any material changes in pooled collateral. Spot checking some current OPCS balances is encouraged to evaluate this risk.
- If investment losses are determinable or can be reasonably estimated, the amounts or estimated ranges should be disclosed in the Deposit/investment disclosure.
- Reminder: For AOS Regulatory Basis (non-GAAP) filers, this disclosure would not include references to investments of the pension and other employee benefit plan in which the entity participates in due to GASB 68 /75 reporting not being applicable.

### **Going Concern Evaluations**

While we anticipate for governments going concern disclosures would be rare, auditors should still be considering these factors, including COVID-19 impact, when performing their evaluations. Even if auditors do not feel the entity has a going concern issue to report, the potential loss of revenue during this time could result in financial difficulties. Auditors should document their evaluation / conclusions in their working papers and follow guidelines in AU-C 570 for determination of whether or not there is a going concern or financial difficulties situation requiring disclosure in the footnotes and auditor's opinion.

### **Estimates**

Some estimates may have been reasonably determined using practices that were perfectly acceptable or reasonable in prior periods; however, uncertainty or expected reductions could mean they can no longer be supported. If such situations arise, auditors should discuss them with management in order to determine if a more appropriate estimate can be determined.

- If a modified estimate is determinable, auditors should not issue a control deficiency for any modification if the facts and circumstances were unknown at the time their financial statements were filed in the Hinkle System.
- If a modified estimate is not reasonably determinable, auditors should evaluate whether the note disclosure appropriately discloses the issue and modify it as needed.

### **Moving Forward**

While we believe the above guidance is likely the best approach as of right now, changes are happening daily. Auditors should not only rely on the information in this communication, but also evaluate these situations based on the most current information they have available to them. In future periods, i.e. those ending on June 30, 2020 and subsequent, there will be additional considerations. For instance, the internal controls operating during this time likely aren't the normal control procedures because of the 'stay at home' order, therefore auditors may need to consider this when planning the engagement. In addition, fraud risks will likely be heightened due to the change in control process.

Please contact the Center for Audit Excellence with any questions.