From: Auditor of State’s Center for Audit Excellence
To: All IPA Firms
Subject: COVID 19 Audit Guidance
Date: April 13, 2020

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.
Consequences of COVID-19
Financial Reporting Considerations

By: Robert Durak, Mike Austin, and Thomas Groskopf

The coronavirus pandemic (COVID-19) is above all a global human tragedy. The spread of the pandemic also is having serious economic implications. Numerous sectors of the economy are suffering damage and the long-term economic and business consequences remain unknown. Among the many consequences of COVID-19, entities may face financial reporting implications and challenges. Impacts such as business and production disruptions, supply-chain interruptions, negative impacts on customers, volatility in the equity and debt markets, reduced revenue and cash flows, and other economic consequences may occur. This Special Report provides succinct reminders to practitioners about some financial reporting matters that may need to be considered in light of the pandemic.

Subsequent Events

Entities may need to evaluate whether the consequences of COVID-19 represent subsequent events. FASB Accounting Standards Codification (FASB ASC) 855, Subsequent Events, defines subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued\(^1\). There are two types of subsequent events:

- The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the

---

\(^1\) FASB ASC 855 requires that, when a reporting entity meets either of the following criteria, subsequent events need to be evaluated through the date that the financial statements are issued:
- The reporting entity is an SEC filer
- The reporting entity is a conduit bond obligor for conduit debt securities that are traded in a public market

When a reporting entity does not meet either of the above-noted criteria (e.g., typical private company), subsequent events need to be evaluated through the date that the financial statements are available to be issued.
estimates inherent in the process of preparing financial statements (that is, recognized subsequent events)

- The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date (that is, nonrecognized subsequent events)

Recognized and nonrecognized subsequent events, as defined in FASB ASC 855, correspond to the two types of subsequent events described in U.S. generally accepted auditing standards (U.S. GAAS) found in AU-C 560, Subsequent Events and Subsequently Discovered Facts. Those two types of subsequent events are:

- Events that provide evidence of conditions that existed at the date of the financial statements (historically referred to as Type I subsequent events)
- Events that provide evidence of conditions that arose after the date of the financial statements (historically referred to as Type II subsequent events)

Practice Note: For calendar year end 2019 financial statements, any COVID-19 related subsequent events identified likely are to be nonrecognized subsequent events (Type II).

Some nonrecognized subsequent events may be of such a nature that financial statement disclosure is required to keep the statements from being misleading. In these situations, financial statements need to include disclosure of the following:

- The nature of the event or events
- An estimate of the financial statement effect of the event or events, or a statement that the estimate cannot be made

Occasionally such an event may be so significant that disclosure can best be made by supplementing the historical financial statements with pro forma financial data giving effect to the event as if it had occurred on the date of the balance sheet. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical statements.

Subsequent Events- Market-Value Declines

Given the recent stock market volatility, we wanted to remind practitioners of the guidance in AICPA Technical Question & Answer (TQA) 9070.06:
Decline in Market Value of Assets Subsequent to the Balance Sheet Date

Inquiry—In light of overall market decline, should the decline in market value of an asset subsequent to the balance sheet date result in the adjustment of the financial statements?

Reply—FASB ASC 855-10-25-1 states that “[a]n entity shall recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.”

FASB ASC 855-10-25-3 states that “[a]n entity shall not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued.”

FASB ASC 855-10-55-2 provides a list of examples of nonrecognized subsequent events, including changes in the fair value of assets or liabilities (financial or nonfinancial) after the balance sheet date but before financial statements are issued or are available to be issued.

Practitioners should also be aware that the amendments in ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income (thereby eliminating the presentation of changes in the fair value of an equity investment in other comprehensive income).

In our experience, most entities do not choose to make financial statement disclosures that are general business risks or are broadly impactful to the majority of entities, such as volatility in the stock market. For example, most non-public entities do not make financial statement disclosures regarding potential changes in value of recognized assets and liabilities due to future potential risks related to climate change, the outcome of elections, or changes in government policy. We also looked through each 10-K filed between March 9th and 16th, 2020 and noted none of them specifically mentioned the most recent decline in the stock market in their MD&A. Instead, they all included boilerplate language about risk of declines in market values of investments.
As a result, while it is ultimately up to your individual clients if they want to include something in the financial statement disclosures specific to recent stock market volatility, our position is that such a disclosure should generally not be necessary if general disclosures related to market risks are already included in the notes to the financial statements.

Subsequent Events- COVID-19

In reviewing the 10-Ks filed in the middle of March 2020, we noted that more entities are not only discussing the impact of COVID-19 within the MD&A portions of their filing, but also making disclosures within the financial statements themselves, such as the following examples

Actual Subsequent Event Disclosure – Chico’s (March 2020 10-K)

In recent days, the COVID-19 outbreak in the United States has resulted in reduced customer traffic and the temporary reduction of operating hours for our stores as well as temporary store closures where government mandated. These recent developments are expected to result in lower sales and gross margin than provided in our previous outlook.

Actual Subsequent Event Disclosure – BankCorp (March 2020 10-K)

The Company evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income. Other financial impact could occur though such potential impact is unknown at this time.

Actual Subsequent Event Disclosure – New Age Beverage Corporation (March 2020 10-K)

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus began to cause some business disruption through reduced net revenue in the Company’s Asia Pacific market in January and February 2020. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Company expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.
Actual Disclosure – Cambridge Bancorp (March 2020 10-K)

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

Illustrative Subsequent Event Disclosure – Daycare Center

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of multiple daycare centers. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Company expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Accounting Estimates

The assumptions and data supporting certain accounting estimates may be affected by the consequences of COVID-19. Practitioners should evaluate whether judgments and decisions made by management in making accounting estimates remain reasonable, in light of any economic and business developments. AU-C 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, addresses auditor responsibilities related to accounting estimates and disclosures in financial statement audits.

Asset Impairment

The consequences of COVID-19 may cause asset impairments for some entities. Impairment models under U.S. generally accepted accounting principles (U.S. GAAP) vary depending on the asset subject to the impairment test. Impairment models consideration of future events also vary significantly under current U.S. GAAP. This can even be the case for the same asset- for example a financial asset using the “incurred loss” model for impairment vs. a financial asset using the current expected credit losses.
model. Asset impairment considerations (and the related professional guidance for reference) may include:

- Financing receivables (e.g., trade accounts receivables, loans)
  - FASB Accounting Standards Codification (FASB ASC) 310, Receivables
  - FASB ASC 326, Financial Instruments — Credit Losses (if adopted)
- Inventories
  - FASB ASC 330, Inventory
- Contract assets
  - FASB ASC 310
- Equity securities
  - FASB ASC 320, Investments: Debt and Equity Securities, or FASB ASC 321, Investments: Equity Securities, if ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, has been adopted
- Debt securities
  - FASB ASC 320 or FASB ASC 326, if ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, has been adopted
- Other investments
  - FASB ASC 325, Investments — Other
- Property, plant, and equipment
  - FASB ASC 360, Property, Plant, and Equipment.
- Intangibles
  - FASB ASC 350, Intangibles—Goodwill and Other
- Deferred tax assets
  - FASB ASC 740, Income Taxes

Loss Contingencies

FASB ASC 450-20, Loss Contingencies, may need to be considered due to the effects of COVID-19. After the date of an entity’s financial statements but before those financial statements are issued or are available to be issued (as discussed in FASB ASC 855-10-25), information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. If the underlying causal event did not occur before the balance-sheet date, an accrual should not be made; however, disclosures may be required, as indicated in FABS ASC 450-20-50-9. Such disclosures should include the nature of the contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made.
**Practice Note:** These determinations are frequently difficult to make and require an informed judgment by management based on the best information available before the issuance of the financial statements. Nevertheless, entities will need to evaluate whether it is reasonably possible that a contingent loss has resulted from the consequences of COVID-19 and make any necessary disclosures.

**Going Concern**

The ability of an entity to continue as a going concern is affected by many factors, to include the industry and geographic area in which the entity operates, the financial health of customers and suppliers of the entity, and the accessibility to financing that is available for the entity. The consequences of COVID-19 may impact those factors and may cause a deterioration in an entity’s operating results and financial position. As such, entities and practitioners may need to consider recent pertinent information related to their assessments of going concern.

An auditor’s responsibilities related to going concern are included in AU-C 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern. For review engagements, the accountant’s responsibilities related to going concern are included in AR-C 90, Review Engagements. Accountants performing compilations can refer to paragraph A20 of AR-C 80, Compilation Engagements, for considerations about going concern issues. U.S. GAAP guidance is contained in FASB ASC 205-40, Disclosures of Uncertainties About an Entity’s Ability to Continue as a Going Concern. Also, see the following CPEA reports related to going concern:

- [SAS No. 132: Auditing Guidance Related to Going Concern](#)
- [SSARS No. 24: New Going Concern Responsibilities in Reviews and Other Chances](#)
- [Going Concern Codified Into U.S. GAAP: New Challenges for a Delicate Process](#)

**Practice Note:** Under AU-C 570 and in AR-C 90, the period of time that an auditor needs to consider related to a going concern assessment is the period of time required by the applicable financial reporting framework or, if no such requirement exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The look forward period in U.S. GAAP matches the look forward period in AU-C 570 and AR-C 90: one year from the financial statement issuance date (or at the date that the financial statements are available to be issued, when applicable).

**CPEA Observation:** The look-forward period is one year from the date the financial statements are issued. With circumstances changing hourly due to COVID-19 with severe impacts in some industries (restaurants, entertainment, airlines, etc.), making the required projections to determine substantial doubt about the ability to continue as a going
\textbf{Actual Going Concern Disclosure – Cineworld (international movie chain) (March 2020 annual report)}

...the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements.

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group’s adoption of the going concern basis. Thus far, we have not observed any material impact on our movie theatre admissions due to COVID-19. Following an increase in admissions in the first two months of the year against the same period in the previous year, we continue to see good levels of admissions in all our territories, despite the reported spread of COVID-19. Although the release of the new Bond movie has been postponed to November 2020 largely due to closure of cinemas in the Asian markets, the studios have advised us that in the countries in which we operate, they currently remain committed to their release schedule for the coming months and remainder of the year.

In the downside scenario analysis performed, the Board has considered the potential impact of the COVID-19 outbreak on the Group’s results. In preparing this analysis the following key assumptions were used: the impact of a total loss of revenue across the enlarged estate for between one and three months, no fixed costs reductions should sites be closed, run-rate combination benefits of c.$133m expected to be achieved as part of the Cineplex acquisition, forecast capital expenditure reduced in 2020 by 90%, and cessation of dividend payments from 1 July 2020.
Actual Going Concern Disclosure – Cineworld (international movie chain) (March 2020 annual report) cont.

This analysis does not take account of the fact that in the case of widespread site closures the films scheduled to be released during this period of closure could be moved to later in 2020. These downside scenarios are currently considered unlikely, however it is difficult to predict the overall outcome and impact of COVID-19 at this stage. Under the specific downside scenario, however, of the Group losing the equivalent of between two and three months’ total revenue across the entire estate there is a risk of breaching the Group’s financial covenants, unless a waiver agreement is reached with the required majority of lenders within the going concern period.

Only the specific downside scenario detailed above would indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. The Consolidated Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Leases

A lessor and lessee may decide to modify the terms of a lease agreement as the result of the consequences of COVID-19. In this situation, entities should consider the guidance in FASB ASC 840, Leases, specifically 840-10-35-4, which requires lessees and lessors to analyze lease modifications (other than lease renewals or extensions) to determine whether substitution of the modified provisions for the original lease provisions at the inception of the lease would have resulted in a different lease classification at the inception of the lease. In cases where the new lease standard (FASB ASC 842, Leases) has been adopted, when a lease modification occurs the lessee has to determine whether the lease modification will be accounted for as a separate contract or as a change to the existing contract. See the guidance in paragraphs 8- 18 of FASB ASC 842-10-25.

Variable Consideration Under FASB ASC 606, Revenue from Contracts with Customers

Under FASB ASC 606 (i.e., the new revenue standard), variable consideration should be estimated and recognized throughout the life of the contract subject to an overall constraint. The overall constraint requires that estimates of variable consideration only should be included in the amount considered for revenue recognition to the extent it is probable that a significant reversal in the amounts of cumulative revenue recognized will not occur when the uncertainty is resolved. At the end of each reporting period, an entity should update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in
circumstances during the reporting period. Entities may need to factor in the consequences of COVID-19 into their update of variable consideration based on conditions at the reporting date.

Risks and Uncertainties Disclosures

FASB ASC 275, *Risks and Uncertainties*, requires disclosures that focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term or the near-term functioning of the reporting entity. The risks and uncertainties addressed can stem from the nature of an entity’s operations, the use of significant estimates, and current vulnerabilities due to certain concentrations. The effects of COVID-19 may negatively impact significant estimates and exacerbate a vulnerability due to certain concentrations (e.g., business concentration in a market severely affected by the effects of COVID-19).

Hedging Relationships

The consequences of COVID-19 may affect the probability of a hedged forecasted transaction and the amounts involved. In those cases, the guidance in FASB ASC 815, *Derivatives and Hedging*, should be applied to determine the continued appropriateness of hedge accounting.

Financial Statements Prepared Under a Special Purpose Framework (SPF)

The guidance and disclosures discussed above in this report apply to U.S. GAAP financial statements. Practitioners are reminded that financial statements prepared in accordance with a SPF (e.g., tax-basis, cash-basis) should include informative disclosures similar to those required by U.S. GAAP when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with U.S. GAAP. Disclosures in SPF financial statements may substitute qualitative information for some of the quantitative information required by U.S. GAAP or may provide information that communicates the substance of those requirements.

Auditor and Accountant Reporting – Emphasis of Matter

An auditor may conclude that an event has such a material impact on the entity that it would be appropriate to include an emphasis of matter (EOM) paragraph in the auditor’s report directing the reader’s attention to the event and its effects. As paragraph .06 of AU-C section 706A, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*, notes, emphasis-of-matter paragraphs are included in the auditor’s report if the auditor considers it necessary to draw users’ attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s professional judgment, is of such importance that it is fundamental to users’
understanding of the financial statements. Paragraph A2 of AU-C 706A indicates that a major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position is an example of circumstances when the auditor may consider it necessary to include an EOM paragraph.

AR-C 90. 89 and AR-C 90.A142 provides similar guidance related to emphasizing a matter in a review engagement. For compilation engagements, AR-C 80 does not preclude an accountant from including an EOM paragraph in the accountant’s compilation report.

Conclusion

The discussion of accounting and reporting issues above is not intended to be all inclusive; rather, the report is intended to be indicative of the types of issues that may need to be addressed in preparing financial statements and considering the consequences of COVID-19 on financial reporting. Other financial reporting issues also may be encountered. As always, the CPEA technical inquiry service is available to answer your inquiries on this topic as well as most other accounting and assurance topics. The inquiry service can be accessed on our website.

Stay Safe

If your office currently remains open we also wanted to provide a link to the Center for Disease Control (CDC) guidelines for cleaning in a workplace and home. Please stay safe during this unprecedented time.

CDC Guidelines for Workplace Cleaning

CDC Guidelines for Home Cleaning

Note: Icons used in this report are made by Freepik from www.flaticon.com.
Consequences of COVID-19
Potential Auditing Challenges

By: Kristy Illuzzi, Chuck Landes, Robert Durak, and Thomas Groskopf

The CPEA continues to respond to questions related to the financial statement impact of COVID-19 and related reporting implications. Our special report issued on March 18, 2020 outlined some financial reporting matters that may need to be considered in light of the pandemic. This report addresses certain auditing challenges.

During the pandemic, challenges never before faced by auditors in performing audits are emerging. In response, auditors need to be more agile and creative in performing audits and complying with the auditing standards. The key is remembering that, while the auditing standards outline the performance requirements for obtaining reasonable assurance the financial statements are free from material misstatement, the auditing standards do not set specific requirements on how auditors might obtain that assurance. Now, more than ever, auditors might rely on technology in performing audit procedures.

Possible Audit Scope Limitations

Performing auditing procedures in the middle of this pandemic is troublesome for many auditors. In some cases, auditors may encounter scope limitations. This report will address some of those possible limitations, including:

- Performing physical inventory observations
- Accessing client records
- Understanding and testing internal control
- Confirming accounts
- Forecasting related to going concern
- Performing subsequent event procedures
- Obtaining management representations
Professional Skepticism & Audit Evidence Quality

Before we begin discussing specific items, we remind auditors of their professional responsibility to plan and perform any audit (or assurance engagement) with professional skepticism.

**AU-C 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards**

Professional skepticism is “an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence.”

In today’s environment where many auditors are working remotely, firms are encouraged to remind everyone, from partners to less experienced auditors, about the importance of staying alert to the quality of evidence and whether that evidence is sufficient appropriate audit evidence to reduce audit risk to an appropriately low level. An audit isn’t about merely checking off audit procedures and the completion of forms and checklists. Rather, it requires professional judgment about the gathering of evidence and what that evidence indicates. While times are difficult for auditors, times are also difficult for clients. Therefore, firms are encouraged to remind staff and partners they are not advocates for clients. Rather, auditors are working in the public’s interest to serve the needs of users of the audit reports. Therefore, auditors may face difficult decisions about whether the audit evidence can reduce audit risk to an appropriately low level.

**Financial Statement Issuance Delays**

With many businesses faced with unexpected closures and demand uncertainties, completion of procedures necessary to issue historical financial statements may be a low priority. The SEC has provided issuers **conditional relief** related to filing deadlines. Management and auditors of private companies may consider delaying financial statement issuance, if possible, until circumstances improve. In the interim, management of private companies could choose to communicate with users by means other than issued historical financial statements (such as drafts or projections). However, such an approach should be carefully considered. If there is a delay in the issuance of the financial statements, auditors will need to consider extending subsequent events and other auditing procedures as necessary.

**Physical Inventory Observation**

AU-C 501, *Audit Evidence—Specific Considerations for Selected Items*, notes that, if inventory is material to the financial statements, auditors should obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by
attending physical inventory counting, unless impracticable and perform audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

For audits of entities with fiscal year-ends that fall in the midst of the COVID-19 pandemic, auditors may encounter cases where retail locations and warehouses are closed, or are open with very limited staff, or auditors are unable to travel to the inventory observations due to travel restrictions. In those cases, obvious challenges arise in performing physical inventory observations.

**Alternative Count Dates and Intervening Transactions.** If clients are unable to perform physical inventory counts at year-end due to unforeseen circumstances, they might decide to perform those physical counts on an alternative date. Auditors may be able to observe the rescheduled counts and perform additional audit procedures on intervening transactions. If the physical inventory counts are to take place at a later date than originally scheduled, auditors will have to perform additional procedures such as reviewing and testing inventory rollforwards. For businesses that have closed store fronts and warehouses, this may not be a difficult task because there may be very few receipts or shipments coming in if facilities have been closed between year-end and the count date.

**Practice Note:** Auditors might need to perform procedures to obtain assurance that client inventory locations have in fact been locked down for a period of time. This might include obtaining live feeds of security camera footage taken of the retail locations and warehouses during that time and reviewing shipping and receiving records during that time to ensure movement was minimal.

**Unable to Attend Inventory Count.** In some cases, clients may be able to perform the usual physical inventory counts, but auditors are unable to attend due to travel restrictions. In those cases, auditors may want to take advantage of technologies including camera systems with live video feeds, to observe inventory counts. Of course, auditors should be aware that procedures that can be performed virtually might be a bit more limited and may pose additional audit risks that will need to be addressed. When there are multiple inventory locations, how will auditors control inventory counts to be certain inventory wasn’t moved from one location to another? If the audit risks cannot be reduced to an acceptable level, this will pose a scope limitation.

**Leveraging Technology to Help with Inventory Counts.** The auditing standards do not prohibit use of technology when performing inventory observations. If auditors are satisfied with the inventory counting process, they may be able to utilize technologies to observe these counts. Of course, auditors may need to ensure there is some level of comfort that the videos are live feeds of client inventory locations, perhaps by confirming
visually with key staff and using voice technology to have cameras moved to specified locations on command and direct certain boxes to be opened.

**Scope Limitations and Alternatives.** In cases where clients are unable to perform physical inventory count at year-end or auditors are unable to obtain sufficient appropriate audit evidence that those counts were conducted properly (either unable to attend physical counts in person or remotely, or unable to test rollforward of inventory from balance sheet date to inventory observation date), these issues likely will present scope limitations that will impact auditor reports. In cases where inventory balances are material but are not pervasive, this will result in qualified audit opinions. Some alternatives auditors might discuss with clients include issuing qualified opinions now and, then, performing agreed-upon procedures engagements on inventory after travel restrictions ease or perhaps having clients discuss with financial statement users as to whether review engagements would be sufficient for the year-end, supplemented with agreed-upon procedures on inventory after year-end when counts can be taken. Of course, auditors should follow the guidance in paragraphs .14, .15, and .A35 through .A39 of AU-C 210, *Terms of Engagement*, when considering changing the terms of the engagement.

**Access to Client Records**

During the pandemic, accessing client books and records may present hurdles for some auditors, especially in cases where clients still maintain mostly paper records. Auditors may be able to obtain client-prepared copies or scans of key records, but auditors need to consider the authenticity of those records and perhaps perform additional audit procedures to be satisfied that those records are complete, accurate, and authentic.

In cases where auditors are unable to access client books and records, auditors may have to inform clients that audits cannot be completed until books and records can be accessed.

**Practice Note:** In cases where clients are required to have audited financial statements before specific dates, perhaps due to bank covenant requirements, auditors may want to encourage clients to contact users of the financial statements, such as bank credit officers, as soon as possible to see if waivers can be obtained.

**Design, Implementation, and Testing of Internal Control**

If client sites are closed and auditors are unable to perform audits on-site, performing walkthroughs and tests of internal control will be challenging. In these cases, auditors may not be able to rely on controls and may have to increase substantive testing.

Even when auditors have no plans to rely on operating effectiveness of controls, auditors still are required to have an understanding of internal control relevant to audits. An
understanding of internal control assists auditors in identifying types of potential misstatements and factors that affect the risks of material misstatement and in designing the nature, timing, and extent of further audit procedures. When risk assessment procedures identify significant risks, auditors then are obligated to evaluate whether controls relevant to those significant risks are suitably designed and implemented. And, since that evaluation can’t be performed through inquiry alone, auditors need to determine what audit evidence remotely can be obtained. In other words, what audit evidence, beyond inquiry, can auditors remotely obtain that indicates controls are designed in a way that would prevent or detect and correct material misstatements in a timely manner, if operated effectively and, what evidence can auditors obtain to determine controls are in place (see AU-C 315.A77)? If auditors are unable to obtain sufficient appropriate audit evidence to perform and complete the risk assessment process, then auditors may have scope limitations.

Advice Extracted from the AICPA’s Guide, Assessing and Responding to Audit Risk in a Financial Statement Audit (paragraphs 3.114-3.115)

When inquiry is used to obtain information about the design of internal control, the auditor may corroborate the responses to inquiries by performing at least one other risk assessment procedure in order to determine that client personnel are using the control. That additional procedure may be further observations of the control operating, inspecting documents and reports, or tracing transactions through the information system relevant to financial reporting. When no other procedure is more effective, corroborating inquiries, combined with observations, consideration of past actions or other evidence supporting the inquiries, may together provide sufficient evidence. When audit evidence is not available from any other sources, corroborative inquiries made of multiple sources may still have significant value when determining whether a control has been implemented.

One of the main pandemic-related audit issues that could arise relates to having sufficient access to all elements of client systems of internal control and whether auditors are able to understand and access those systems remotely (regardless of the level of automation). For example, how do auditors assess certain aspects of the control environment, the monitoring component or the control activities component remotely? Determining if a control has been implemented will be challenging if observation is required. If auditors are able to perform tests of controls during preliminary fieldwork, they might be able to place a level of reliance on controls. In addition, if management had to change some internal control procedures due to many personnel working remotely during the pandemic, auditors might be able to discuss any new
processes with management and confirm those new controls put in place during that time were operating effectively.

However, in an ever-changing and somewhat unstable environment, auditors should inquire as to any changes in the client system of internal control since the time that preliminary work was performed. In some cases, those controls may have changed dramatically, and procedures may have been changed to accommodate remote work forces and process flows. In such cases, auditors would need to evaluate how much reliance can be placed on those controls that were only in effect for a portion of the year.

**Account Confirmations**

As noted in AU-C 505, *External Confirmations*, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by auditors from confirming parties may be more reliable than evidence generated internally by the entity. In cases where a client site has been shut down or key staff are no longer on-site, obtaining external confirmations could be another alternative way to obtain audit evidence. However, there could be situations in which those audit confirmations are not filled out and sent back to the auditors, perhaps due to office closures and mail issues. In such cases, auditors would have to design additional audit procedures to gain sufficient, appropriate audit evidence related to the existence and valuation of key accounts such as accounts receivable.

Typically, if auditors are able to design and perform additional tests of those account balances, non-receipt of confirmations in and of itself should not result in a scope limitation. However, if auditors are unable to obtain sufficient audit evidence through review of the client books and records and are relying on receipt of audit confirmations as a key source of audit evidence, the non-receipt of those confirmations could result in a scope limitation (where balances are material to the financial statements).

**Practice Note:** Due to increasing business closures and movement to telecommuting models, auditors may consider sending electronic confirmations rather than paper ones. Some firms may have process flow software where this could be done quite easily and might result in a better response rate. Asking clients to first contact their vendors and suppliers in advance may be prudent, to understand the best way to contact these parties in the current environment. And although verbal confirmations are not the best source of audit evidence, perhaps during these times it might be the fastest and most effective way to obtain confirmation of account balances. In considering procedures, firms also should consider that, given sensitivity to cash flow in certain parts of the economy, more accounts receivable may remain outstanding when audit procedures are performed than in prior audits.
Audit Planning

The first standard of fieldwork indicates that, "the auditor must adequately plan the work and must properly supervise any assistants." Auditors should take note that remote working does not excuse having required audit planning meetings. Auditors should ensure they still are holding these discussions as needed and having substantive discussions on engagement risks with the engagement team prior to commencing audit fieldwork.

Fraud Brainstorming and Interviews

AU-C 240, Consideration of Fraud in a Financial Statement Audit, lays out a number of requirements and procedures that may be more challenging in a remote audit. For example, auditors still will need to carry out an appropriate discussion among the engagement team in order to understand what fraud risk factors may be affecting the entity in this environment. According to paragraph .A17 of AU-C section 240, inquiries of management and others within the entity are generally most effective when they involve an in-person discussion. However, due to the current circumstances related to the pandemic, these inquiries could be done via video conferencing technology.

Practice Note: When fraud interviews cannot be performed in person, use of video conferencing would be preferable to audio only conferencing as auditors would be able to see body language.

Also, the standard requires auditors to have discussions with management regarding management’s assessment of the risks of fraud and management’s process for identifying, responding to, and monitoring the risks of fraud. If for any reason, auditors are unable to complete these procedures, auditors would need to consider a scope limitation.

Going Concern Assumptions and Related Disclosures

As noted in our special report dated March 18, 2020, the ability of an entity to continue as a going concern is affected by many factors, to include the industry and geographic area in which the entity operates, the financial health of customers and suppliers of the entity, and the accessibility to financing that is available for the entity. The consequences of COVID-19 may impact those factors and may cause a deterioration in an entity’s operating results and financial position. As such, entities and auditors may need to consider recent pertinent information related to their assessments of going concern.

The look-forward period is one year from the date the financial statements are issued unless specified by the financial reporting framework (FRF-SME specifies a look-forward period of one year from the financial statement date). With circumstances changing
hourly due to COVID-19 with severe impacts in some industries (restaurants, entertainment, airlines, etc.), management’s evaluation of conditions or events that may have an effect on the entity’s ability to continue as a going concern under U.S. generally accepted accounting principles (U.S. GAAP) could be extremely difficult.

In some cases, management’s ability to evaluate and quantify going concern issues could cause difficulty in complying with the relevant U.S. GAAP rules (FASB Accounting Standards Codification (FASB ASC) 205, Presentation of Financial Statements, and more specifically FASB ASC 205-40). When management performs an evaluation of the entity’s ability to continue as a going concern, but auditors are unable to gain access to that information or believe the supporting documentation is inaccurate or incomplete, auditors need to consider a scope limitation. Or, if auditors are able to conclude that substantial doubt remains, then a modified report should be issued for the substantial doubt.

**Practice Note:** However, auditors should keep in mind that management’s assumptions are just that and, although making some of these evaluations or forecasts might be difficult to do in our current environment, in many cases, management’s best estimate would be acceptable and would not result in a scope limitation.

### CPEA Observation

The CPEA has been monitoring public company filings, and we encourage private companies to look at these examples when preparing financial statement disclosures. See the CPEA special report, *Consequences of COVID-19: Illustrative Public Company Disclosures*, for helpful examples. Going concern reporting is an area that will continue to evolve as the economic impacts of this pandemic come into sharper view.

### Subsequent Events

For calendar year-end 2019 financial statements, any COVID-19 related subsequent events identified likely will be events that provide evidence of conditions that arose after the date of the financial statements (historically referred to as Type II events). However, for entities with a year-end that is later than December 2019, management could have recognized subsequent events (historically referred to as Type I events).
Many entities with year-ends after December 2019 will have pandemic-related events that require an adjustment to the financial statements or additional disclosures. Auditors will have to work with clients to ensure any subsequent events have been accurately identified and reflected in the financial statements as required by FASB ASC 855, *Subsequent Events*. If management is either unable or unwilling to identify those events and properly reflect them in the financial statements, this could result in a modification to the auditors’ opinion.

**Management Representations**

During this pandemic, additional representations could be added to the management representation letter, depending upon the particular circumstances of an engagement. Those additional representations may relate to the going concern assumption, subsequent events, risks and uncertainties, fraud, and significant estimates, among others.

**Electronic Signatures:** Using electronic means to obtain signed management representation letters is acceptable, if auditors can obtain management’s receipt and acknowledgment of the letters. On a recent AICPA webcast, participants asked whether it was acceptable for management representation letters to be on “plain paper” rather than on company letterhead. The standards do not require use of letterhead. However, as a matter of best practice, it might be prudent for companies to note the company name and address at the top of the letter.

Depending on what is omitted from management’s representation letter, the failure to obtain all representations does not necessarily result in a scope limitation. If management does not provide one or more of the requested written representations, auditors should:

- Discuss the matter with management
- Re-evaluate the integrity of management and evaluate the effect this may have on the reliability of representations (verbal or written) and audit evidence in general, and
• Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with AU-C 705A, *Modifications to the Opinion in the Independent Auditor's Report*

**Fraud Risk**

Auditors should be on higher alert for fraud risks given these uncertain times. For companies that have laid off key personnel and with work forces moving out of the typical office environment, there could be a breakdown in internal control. Auditors may need to adjust audit procedures as necessary to help reduce any potential fraud risks that could have a material effect on the financial statements.

**Conclusion and Additional Resources**

CPEA will continue to monitor issues and questions related to the A&A impacts of COVID-19 and stand ready to issue additional guidance as new developments arise. The AICPA also has a [Coronavirus Resource Center](https://www.aicpa.org/coronavirus) to keep the profession up-to-date on this issue, including information on business continuation, economic impact, workforce issues and other resources to help members serve their clients. View a [list of all available resources](https://www.aicpa.org/coronavirus).

As always, the CPEA technical inquiry service is available for all CPEA members to answer your inquiries on this topic as well as most other accounting and assurance topics. The inquiry service can be accessed on our website. For non-CPEA members, you can call the AICPA technical hotline at 1-888-777-7077. Questions related to auditor independence (which certainly could arise in the current environment) should be directed to the AICPA Ethics Hotline at **1-888-777-7077** (select option 2, then 3) or ethics@aicpa.org.

---

*Note: Icons used in this report are made by Freepik from www.flaticon.com.*

Center for Plain English Accounting | aicpa.org/CPEA | cpea@aicpa.org

---

The CPEA provides non-authoritative guidance on accounting, auditing, attestation, and SSARS standards. Official AICPA positions are determined through certain specific committee procedures, due process and extensive deliberation. The views expressed by CPEA staff in this report are expressed for the purposes of providing member services and other purposes, but not for the purposes of providing accounting services or practicing public accounting. The CPEA makes no warranties or representations concerning the accuracy of any reports issued.

© 2020 Association of International Certified Professional Accountants. All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please e-mail cpea@aicpa.org with your request. Otherwise, requests should be written and mailed to the Center for Plain English Accounting, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.
Auditor reporting and transparency about the entity’s financial condition is information critical to our turbulent economy. Amid the economic turmoil related to the coronavirus pandemic, going concern is one of the topics that auditors are most frequently asking about in their contacts with the AICPA. The information in this article does not address audits performed in accordance with PCAOB standards.

Auditors may need refreshers on what the auditing standards say about going concern and how they interact with the accounting requirements.

In FASB’s standards, management is responsible for determining whether preparing the financial statements on a going concern basis is appropriate for the entity. FASB’s standards require that management look out for a reasonable period of time, which is 12 months beyond the date when the financial statements are issued. Management needs to assess whether there is substantial doubt about the entity’s ability to continue as a going concern for that 12-month period. Management then concludes whether preparation of the financial statements as a going concern is appropriate.

I should also just quickly point out that’s the standard issued by FASB for nongovernmental entities. There are also governmental accounting standards. (specifically, for going concern, GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.) And the reasonable period of time for this assessment by management in that case is 12 months from the financial statement date, for example, the balance sheet date.

Some special-purpose frameworks may address this evaluation of a reasonable period of time. For instance, the Financial Reporting Framework for SMEs also has the period defined as 12 months from the financial statement date, for example the balance sheet date.

For this reasonable period of time, management is required to identify whether any conditions or events are present when they’re making this evaluation that may cause significant doubt with respect to the ability to continue as a going concern. And management’s evaluation is made based on the conditions or events that
are known at the time they are making that evaluation or are reasonably knowable as of that date. It essentially is, at the date of that evaluation, what do they know and then what is their conclusion around that.

I think that’s important because what that actually says is that conditions that arise or events that occur subsequent to that evaluation or subsequent to the date that the financial statements are issued, those subsequent events may result in a different outcome or a difference that does not reflect management’s evaluation. And that’s OK. Nobody can predict the future.

“Substantial doubt” from the perspective of management is defined by FASB as a “probable” threshold, which means “likely to occur.” When we get to the auditing discussion later, however, it should be noted that AU-C Section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern, does not define “substantial doubt.” The auditing standards direct the auditors to consider whatever the accounting framework uses. In this case, whatever U.S. GAAP (either FASB or GASB) requires is what the auditor would use.

**The auditor’s objectives**

The auditor is required to consider the evaluation that has been performed by management and then to come to his or her own conclusion on whether the use of the going concern basis is appropriate for preparation of those financial statements. Another requirement is for the auditor to consider the adequacy and the appropriateness of the disclosures around the conditions and events relative to going concern. Those requirements for disclosure are essentially in the accounting framework, so they’re embedded in U.S. GAAP (either FASB or GASB).

Let’s drill down on those basic objectives and consider the steps the auditor goes through in achieving those objectives. The first one, of course, is to consider, from the auditor’s perspective, whether there are any conditions or events that cause or raise substantial doubt about the ability to continue as a going concern.

Certainly, it would be hard to deny that the pandemic and COVID-19 create events and conditions that may cause doubt about an organization’s ability to continue as a going concern. But that’s not a blanket, uniform, absolute rule in today’s environment. Depending on the sector in which the entity operates, it may or may not cause significant doubt. The example that everybody uses these days is, if your business happens to make toilet paper, the environment is probably not leading you to question your ability to continue as a going concern.

On the other hand, if you’re operating a business in the hospitality industry — restaurants, bars, airlines, cruise ships, things like that — obviously the conditions and events give rise to going concern matters.

Once the auditor establishes whether conditions and events warrant a going concern evaluation, the next step for the auditor is to ask whether management has performed the evaluation that they are required to perform under the accounting framework as described above.

If management has performed that evaluation, then the next step would be for the auditor to look at, consider, and discuss management’s evaluation with them. I think in today’s environment, certainly with today’s smaller businesses, management has their hands full with so many things, just keeping the
operations going and the doors open, that they may very well have not spent a lot of time with a going concern evaluation. If management has not performed that evaluation, then the auditor is obligated to ask management to perform the evaluation required by the accounting framework.

The next step then is to consider the evaluation that management has performed. The first question of course is, do you agree as an auditor that management has identified all the appropriate conditions and events that need to be considered? Have they extended that evaluation period out to the reasonable period of time? Have they included all relevant information that’s available at that date? Remember, management’s evaluation is valid at the point at which they make that evaluation based on known information.

Management's plans for mitigating substantial doubt

When conditions and events have been identified and management has concluded there is substantial doubt about their ability to continue as a going concern, the next step would be for the auditor to evaluate management’s plans to effectively mitigate those conditions and events to less than a probable chance of occurring.

In other words, the auditor would be asking, “Can management execute these plans, and if executed, would it mitigate substantial doubt about going concern to less than probable?”

This is a key process for auditors. Often management is going to be using cash flow forecasts in that evaluation, and that’s a significant factor in helping them determine whether their plans can alleviate substantial doubt.

When management needs to use cash flow projections to make their evaluation, then the auditor certainly has to consider those projections and evaluate the underlying data. The auditor has to make sure the underlying data used in the projections is reliable and that management has the appropriate support for the assumptions they’re using in making the projections.

The last piece of the puzzle often for management plans involves the entity’s ability to access funding from an external third party, a parent entity, an owner-manager, or some other source. That circumstance is directly addressed in GAAS (AU-C Section 570). If that’s part of management’s plans, then the auditor needs to assess whether those third parties have both the intent and the ability to provide that support if need be. And if the intent and ability are present, there is a requirement for the auditor to obtain written evidence about the intent, preferably from the third party. And if that’s all present, that may very well lead to a conclusion that the going concern has been alleviated for a reasonable period of time.

Specifically related to external funding in the current environment, we’re all very well aware of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the funding that is available through a loan program (https://www.journalofaccountancy.com/news/2020/apr/paycheck-protection-program-ppp-loans-sba-details-coronavirus.html) with the U.S. Small Business Administration (the SBA). It certainly appears as though most qualifying small businesses will be able to obtain a loan from the SBA to cover payroll and interest on mortgage obligations, as well as rent payments and utility payments for the covered period of that loan. And if those funds are expended as intended, the portions of the loan that are expended in accordance with the program would be forgiven.
As a result, the CARES Act is a viable source for external funding for management today as part of their plans. We certainly believe that because this program has been enacted by legislation and it’s being run by the Treasury Department involving the SBA, that the Act or the law itself is sufficient in lieu of written evidence about the intent.

Nonetheless, the CARES Act funding on its own may not be enough to alleviate substantial doubt about going concern. One aspect that the auditor would need to be thinking about, and I’m sure owner-managers and management are thinking about, is whether that funding is sufficient to get them through a full 12-month period. We need to take that consideration going forward in whether the substantial doubt related to going concern was alleviated.

**Special considerations related to the COVID-19 pandemic**

When management needs to do projections, auditors need to consider the reliability of the underlying data involved in those projections and the reasonableness of management assumptions. I think it’s generally well recognized that in the environment we face today with the pandemic, there is a heightened degree of uncertainty associated with trying to do projections for a 12-month period into the future.

Auditors understand that in this environment, it is inevitable that the degree of uncertainty is elevated from what it would be in other cases. Because of this, we need to look at those projections with a degree of judgment to assess whether management has done the best they can in making those projections or assessments, based on the information available to them today.

Auditors also need to ask whether management’s assumptions are reasonable. That requires a lot of judgment, but I think we have to appreciate that the robustness and the rigor of elaborate cash flow projections, for example, just may not be possible in the environment we’re in. We’re all going to have to recognize that those requirements have to be met the best they can with the information that’s available at the time the evaluation is made.

The important point then is that when a going concern evaluation involves projections and there is uncertainty involved, those types of disclosure in the financial statements that highlight the uncertainty, especially as it relates to uncertainty associated with estimates and projections, should be made in the notes to the financial statements in the risks and uncertainty area or some general footnote.

Another aspect for auditors to consider is that the conditions and events we’re facing should not be considered to be an automatic going concern report for any company. We still have to go through the process. It’s likely that we may see more going concern conclusions, but it’s not automatic. There are many, many businesses out there that have very strong financial statements, for example.

When you look at what we’re facing with the pandemic, clients with very strong balance sheets may not have significant doubt about being able to operate as a going concern for a 12-month period just based on the strength of their financials. This is not an automatic rule of thumb or conclusion to be drawn. You have to look at each circumstance individually and make that assessment. It’s possible that we may have businesses out there that can withstand this for 12 months just based on the strength of their financials.
We have received questions from members about whether it would be prudent for management to delay the issuance of its financial statements until some of this uncertainty is resolved. First of all, this would be contingent on whether management has the flexibility to delay issuance of its financial statements. Certainly, we always have to be thinking about who the users of the financial statements are and whether a delay in the issuance of the financial statements would be acceptable or would be viewed as unacceptable by users of the financial statements.

Again, you need to go back to the users of the financial statements. If the issuance of the financial statements is delayed unreasonably, that simply means the users of the financial statements will be deprived of the information they need during that extended period. That may not be in the best interests of the users, and I think that’s something management and auditors need to be taking into account.

Another aspect of this is that nobody can even come up with a consensus estimate of when this pandemic may start to look better and resolve itself, or when social distancing or travel restrictions may be relaxed. As a result, it’s a little bit of a tenuous proposition to think you’re going to wait until the uncertainty resolves itself to issue your financial statements as it may be a long time.

**Auditor reporting**

In the end, a client may be most interested in what the auditor’s report is going to look like. There are different types of audit reporting that can result from a going concern evaluation.

The first one is generally a rare occurrence. If, after considering the conditions and events and management’s plans, there’s a conclusion by the auditor that the substantial doubt has not been alleviated and use of the going concern basis of accounting to prepare the financial statements is not appropriate but the financial statements have been prepared on the going concern basis, then the auditor plain and simply has to issue an adverse opinion. We don’t expect that to be common at all, but that is one requirement of the standards.

In another scenario, let’s say the conditions and events did create a substantial doubt about going concern, but after considering management’s plans, including projections and availability of third-party financing or funds, we believe that significant doubt has been alleviated. *If* there’s adequate disclosure in the financial statements about those events and conditions and management’s plans, then the auditor could issue an unmodified report in that case, or may include an emphasis-of-matter paragraph at the auditor’s discretion.

Those disclosures are required by the accounting framework. And if substantial doubt has been alleviated by management’s plans, then management would disclose the conditions and events that gave rise to the substantial doubt as well as their plans for alleviating it, and in that case there would be no requirement to modify the standard auditor’s opinion. You could issue the unqualified opinion.

The next scenario deals with a situation where the events and conditions give rise to substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, and then we consider management’s plans, and there’s a conclusion that the substantial doubt would not be alleviated by management’s plans.
In that case, management is required to make disclosures required by the accounting framework made by management. The auditor is required to add an emphasis-of-matter paragraph to the auditor’s report that clearly articulates the nature of substantial doubt about going concern and would direct the users of the financial statements to the appropriate disclosures in the financial statements.

Lastly, an important aspect of this is that the disclosures are required by the financial accounting framework to be made by management. Regardless of where we end up with respect to whether substantial doubt is alleviated or not, the auditor always might be in a situation of having to qualify his or her opinion if the disclosures are not appropriate in the circumstances.

**A common occurrence**

Although going concern is one of the top three areas we get questions about, the requirements are not actually that complex. Everybody should be familiar with them and the process involved. Certainly, as we alluded to, there are probably a handful of unique considerations that require the auditor to use professional judgment when applying the requirements of the standards.

Certainly, there may very well be an increase in the number of emphasis-of-matter paragraphs and we can expect more disclosure in the financial statements about the risks and uncertainties. But on the other hand, it’s not going to be unusual to see those. An entity’s financial statements would not look substantially different from everyone else’s financial statements if they’re done appropriately, because I think there are going to be many in that category.

*For more news and reporting on the coronavirus and how CPAs can handle challenges related to the pandemic, visit the JofA’s [coronavirus resources page](https://www.journalofaccountancy.com/info/coronavirus-resources-for-cpas.html).*

— **Bob Dohrer**, CPA, CGMA, is the AICPA’s chief auditor. **Ken Tysiac** ([Kenneth.Tysiac@aicpa-cima.com](mailto:Kenneth.Tysiac@aicpa-cima.com)) is the JofA’s editorial director.