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UK Financial Reporting Season: UK Financial Reporting Council Publishes Guidance for Auditors on Audit Issues

March 20, 2020

See our past alert on March 18

On 16 March 2020, the UK Financial Reporting Council (FRC) issued updated guidance for auditors which may be facing practical difficulties in carrying out audits as a result of the COVID-19 pandemic.

In its March guidance for auditors, the FRC recognises the practical difficulties some companies and auditors are facing in preparing accounts and carrying out audits. The FRC expects this to affect the way in which audit firms carry out their audit of those companies, given restrictions on travel, meetings and access to company sites in some jurisdictions, and the need to develop alternative audit procedures to gather sufficient, appropriate audit evidence.

Despite these difficulties, the FRC's view is that the current situation should not undermine the delivery of high-quality audits. Audits should continue to comply fully with required standards and, if required due to the current circumstances, additional time should be taken to complete audits, even at the risk of delaying company reporting.

The FRC notes that auditors will need to consider the impact of COVID-19 in relation to the following:

- The auditor's risk assessment, and whether it needs to be revised.
- How the auditor gathers sufficient, appropriate audit evidence, recognising that the planned audit approach may need to change and alternative procedures developed, particularly in group audit engagements. The auditor must be able to gather the necessary evidence to be able to report or consider modifying their audit opinion.
- How the group auditor proposes to review the work of component auditors to meet the requirements in standards, including considering whether alternative procedures can be used, for example where travel is restricted.
- The auditor's assessment of going concern and the prospects of an audited company, given that uncertainty about the global economy and the immediate outlook for many companies has increased.
- The adequacy of disclosures made by management about the impact of COVID-19 on the company, so that users of the company’s financial statements are properly informed, and the company’s prospects and how those might be affected are described, recognising the high degree of uncertainty.
- The need for the auditor to reassess key aspects of their audit as a result of the fast-changing situation, recognising that this assessment will take place right up to the point of signing the auditor's report and may need the provision of further evidence and information by management. Where the current circumstances have had a significant impact on the delivery of the audit, the auditor will need to consider how to explain this in their report, for example by reporting this as a key audit matter.

Advice from the FRC:

- Auditors must engage with companies to ensure clear expectations are set as to the level of disclosure they expect to see in annual reports regarding the impact and risk of COVID-19 on the company.
- Companies need to understand that it is vital auditors have sufficient time and support to carry out their work to a high standard, including reassessing work done to reflect changed circumstances. In some cases, companies may need to reconsider their reporting deadlines.

The FRC is currently holding weekly calls with the largest UK audit firms and will increase the frequency if

necessary. The FRC is also actively considering what additional advice and guidance may be needed to support the audit profession in delivering audits in the coming months.

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Key Contacts

Claire Keast-Butler London	ckeastbutler@cooley.com +44 20 7556 4211

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