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Financial Reporting Council

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Guidance on audit issues arising from the Covid-19 (Coronavirus) pandemic

16 March 2020

AUDIT ISSUES ARISING FROM THE CONSEQUENCES OF THE COVID-19 (CORONAVIRUS) PANDEMIC

COVID-19 is causing a shock to the global economy that could prove sharp and large but should be temporary* (Bank of England). Uncertainty about the immediate outlook for many companies has increased sharply. This has consequences for companies proposing to report results in the coming months, and for their auditors. The Financial Reporting Council (FRC) has previously published [guidance for companies](#) on disclosure of risks and other reporting consequences arising from the emergence and spread of COVID-19.

Some companies and auditors are also facing practical difficulties in preparing accounts and carrying out audits. The FRC expects this will 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.

The FRC is concerned that the current situation should not undermine the delivery of high-quality audits. Audits should continue to comply fully with required standards. In current circumstances, additional time may be required to complete audits and it is important that this is taken, even at the risk of delaying company reporting.

The FRC is currently holding weekly calls with the largest UK audit firms and will increase the frequency if needed. The FRC is actively considering what additional advice and guidance may be necessary to support the audit profession in delivering audits in the next few months.

In this period auditors will need to consider the impact of COVID-19 on:

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 on the company of COVID-19, so that users of the financial statements are properly informed, and the company's prospects and how they might be affected are described, recognising the high degree of uncertainty; and

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.

Auditors will also need to engage with entities they audit to ensure that:

The auditor sets clear expectations as to the level of disclosure they expect to see in annual reports to communicate the impact and risk of COVID-19 on the company; and

Companies, and in particular their audit committees, understand it is vital that auditors have sufficient time and support to carry out their work to an appropriate standard, including reassessing work done to reflect changed circumstances – in some cases, this may need companies to reconsider their reporting deadlines. Where auditors are unable to obtain sufficient, appropriate audit evidence to support their audit, they will need to consider necessary modifications to their audit opinion.

*See www.bankofengland.co.uk/news/2020/march/boe-measures-to-respond-to-the-economic-shock-from-covid-19.

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