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COVID-19: Key focus areas for audit committees

Questions audit committees should be asking management and auditors

The COVID-19 crisis has led to circumstances and counter-measures that are unprecedented. With the entire country under lockdown, there is significant impact on businesses and financial markets. Companies need to consider financial reporting implications during preparation of their financial statements in the wake of this ongoing crisis.

At the same time, audit committees will need to understand how management and auditors dealt with the fallout, in discharging their duties on the financial reporting oversight front. While there may be further questions specific to each company and sector, there are a few common questions that the audit committees should consider asking the management and auditors.

Here are a few questions that audit committees should be asking management

1. What is the **overall impact of COVID-19** on the company, including its operations and financial reporting (supply chain disruptions, unused/ under-utilised capacities, liquidity issues, reduced sales, loss of inventory, etc.)? What were the considerations in the impact assessment undertaken by the management?
2. Were there any **renegotiations or breaches** of any significant contracts/arrangements with suppliers and customers on account of COVID-19?
3. What is the impact on the **business combinations or restructuring plans** that were in the pipeline?
4. What is the impact on **liquidity** and the **going concern** assessment of the company? Are there any negative indicators (such as non-payment of salaries/statutory dues/default of any loan repayments, that were due)?
5. Were there any **new risks**, including those relating to IT, fraud and segregation of duties, identified?
6. If so, were they addressed through modification of **existing controls** or were **new controls** implemented (i.e., design effectiveness of controls)?
7. Did the crisis impact the **operating effectiveness of existing controls**? For example, how did controls involving physical presence such as inventory controls or manual sign-offs operate during the period of lockdown?
8. Were necessary **communications** sent out and related **trainings** imparted where required, to employees informing them about new or amended controls?
9. Is there an impact on valuation of **inventory**? How does the company plan to obtain comfort on physical existence of inventory as on 31 March 2020?
10. What are the **significant management estimates** underlying the financial statements and how did the crisis impact such estimates, including key changes in assumptions? How has management considered the related estimation uncertainties (fair valuations, significant increase in debtors' credit risks, impairment assessments)?
11. How did the crisis impact the **treasury function** of the company, particularly hedging transactions? Are the conditions for hedge accounting continuing to be met and is there a need to rebalance the portfolio or recognise the impact of hedge ineffectiveness?
12. Were there any **regulatory changes** or government assistance (waivers, grants, moratoriums) relevant to the company? What is the impact of such changes or assistance?
13. What are the additional disclosures in the **'Management Discussion and Analysis'** section of the Annual Report for the current year as well as financial statements (e.g., additional risks, estimation uncertainties, going concern assessment)?
14. In case of listed companies, were any **disclosures** required to be made to the **stock exchanges** of material events or transactions (e.g. breach of debt covenant, cancellation of material contracts that have a material/significant impact, etc.)?
15. What were the challenges, if any, in preparation of the **consolidated financial statements** of the company?



The process of annual audits is also likely to pose its own challenges this year with certain procedures being undertaken by auditors remotely or certain procedures such as physical verification of inventory being delayed/shelved.

Here are a few questions that audit committees should be asking auditors

1. Do you agree with the **management's assessment** of the overall impact on the company?
2. What is the impact of the current situation on your **risk assessment** of the audit, including the fraud risk assessment?
3. Do you agree with the management's assessment of the **going concern** underlying the financial statements?
4. Do you agree with management's assessment of implications on **risks and controls**, including modified and new controls implemented? Were there any **control lapses** that were identified by you?
5. What were the **key management estimates**, particularly with respect to revenue, impairment assessment, investments and inventory valuations and has the management adequately considered the impact of current circumstances on the assumptions?
6. How did you obtain the required comfort on **physical existence of inventory**, and **cash and bank balances** at the year-end?
7. How did current conditions affect conduct of the **group audit**? Were there any challenges faced in coordinating or obtaining information from the component auditors?
8. What **additional procedures** were required to address audit risks pursuant to management working from remote locations or travel restrictions? Were there any **scope limitations** in performance of the required audit procedures?
9. In your view, are the **disclosures** made in the financial statements adequate with respect to areas impacted by COVID-19? Are they consistent with the disclosures made by management in the Annual Report?
10. What is the impact of the pandemic on the **auditor's report** including assessment of key audit matters to be reported?

Companies and auditors will need to ensure that they are in constant communication with each other to deal with this situation and also keep abreast of regulatory updates and guidance that may be issued from time to time.

Regulators have been proactive and have announced certain relaxations in various compliance requirements. Other relaxations may also be forthcoming depending on how the situation unfolds. Audit committees therefore need to ask auditors and management these key questions in order to effectively discharge their financial reporting oversight duties.



Grant Thornton in India can help companies navigate the key financial reporting implications that they need to consider for preparation of their financial statements during the COVID-19 crisis.

[Click here to download Grant Thornton's Thought Leadership on financial reporting considerations](#)



For more insights on the COVID-19 crisis, scan this barcode to see continuous updates on our website

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