CPA Uganda

INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

CORONAVIRUS DISEASE(COVID-19) GUIDANCE FOR AUDITORS

MARCH 2020

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) is the National Professional Accountancy body in Uganda. The functions of the Institute, as prescribed by the Accountants Act, 2013 are to regulate and maintain the standard of accountancy in Uganda; and to prescribe and regulate the conduct of accountants and practicing accountants in Uganda. ICPAU has over 3,000 registered members and over 8,000 active students going through the Institute's examinations scheme at various levels of completion.

Vision

To be a world class professional accountancy institute

Mission

To develop, promote and regulate the accountancy profession in Uganda and beyond, in public interest

Core Values

- Professional excellence
- Accountability
- Integrity
- Innovation

DISCLAIMER

This Paper contains general guidance to ICPAU members about auditing concerns caused by the Coronavirus 2019 (COVID-19).

The Paper is not intended to be comprehensive or to deal with all situations that might be encountered. This Paper is supplementary to and is not a substitute for other relevant pronouncements, which should be regarded as the primary source of guidance.

The information provided in this Paper does not, and is not intended to, constitute legal advice. If in doubt, ICPAU members are advised to seek appropriate legal advice.

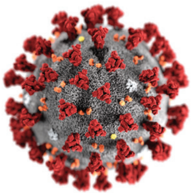
Whereas every care has been taken in the preparation of this paper, the ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Paper.

TARGET AUDIENCE

ICPAU provides guidance and services to help its members keep up to date with regulatory issues and developments. ICPAU represents professional accountants in Uganda and contributes to public affairs and other matters that impact on the accountancy profession.

The primary audience for these guidelines is accountants in public practice.

TABLE OF CONTENTS



1.0 BACKGROUND

The world is currently experiencing an outbreak of the Coronavirus disease 2019 (COVID-19). But this is not the first such crisis to ever happen in the world. In the last 50 years, we have witnessed the emergence of new and dangerous diseases. From herpes and Legionnaires' disease in the 1970s, to AIDS, Ebola, the Severe Acute Respiratory Syndrome (SARS) and now COVID-19. COVID-19 which broke out at the end of 2019 in China has now spread into many countries across the globe.

The manner through which the disease spreads has had very devastating effects for companies and countries. Public policy measures to contain the spread of the virus are resulting in significant disruptions for many companies. Staff quarantine, supply chain failures and sudden decrease in demand from customers are creating serious issues for companies across a wider range of sectors than initially anticipated. Many companies on the other hand often don't have any policies in place to help them address such situations. These guidelines aim at providing members of the Institute (serving in public practice) with guidance on how to respond to disruptions caused by an outbreak of contagious diseases when managing their practices and relationships with their clients.

However, the current situation should not undermine the delivery of high-quality audits.

2.0 THE CORONAVIRUS DISEASE 2019 (COVID-19)

According to the World Health Organisation (WHO), the current outbreak of coronavirus disease (COVID-19) was first reported from Wuhan, the capital of China's Hubei province in December 2019. The pneumonia-like disease first declared a public health emergency of international concern in January 2020 and later a global pandemic in February 2020. By March 2020, the virus had infected over 90,000 people and led to more than 3000 deaths.

COVID-19 has impacted communities, ecosystems and supply chains far beyond China. By March 2020, there were more than 400 confirmed cases of coronavirus in Africa with Egypt, South Africa, Algeria and Morocco among the hardest hit.

Uganda registered her first infection on 21 March 2020. However the effects of the epidemic were felt by the country long before the first case was registered. The Coronavirus has caused widespread geopolitical and economic instability due to the mass production shutdowns and supply chain.

While the Coronavirus outbreak presents an alarming global health crisis, there is a consensus that the health crisis also presents an economic one[1] . Businesses are faced with operational or financial challenges due to this outbreak. Businesses are also concerned with the impact that events may have on the relationship with their customers. Customer loyalty and trust are at test. Disruptions have been more pronounced in industries such as tourism, hospitality, transportation (largely aviation) and retail among others. It's estimated that the worldwide aviation industry alone will lose up to USD 113 billion this year. Many airline companies are requesting for bail outs from their governments in order to survive the COVID-19 crisis. Indirectly, the overall economic uncertainty of the crisis has affected entities that may not have direct exposure to COVID-19.

In Uganda, the travel advisories and other restrictions emphasising social distancing have had a negative impact on Uganda's travel and hospitality industries with hotels, travel and tour companies losing a lot of revenue. The tourism sector, which is currently Uganda's number one source of foreign exchange constituting 7.7% of the country's gross domestic product (GDP) and employing close to 700,000 people has been severely affected[2].

The pandemic is equally likely not to spare the country's tax collections. Currently about 42% of Uganda's tax is collected from international trade through value added tax, import duty and excise duty on petroleum products. A slowdown in international trade is likely to negatively impact tax collections this year. The situation is worsened by the reduced activity in retail and trade, hotels, tourism and manufacturing sectors, which will result in reduced value added remittances and corporation tax payments. Local trade associations have requested for waiver of some taxes and/or extension of return and payment schedules. Small and medium businesses have already anticipated likely downturn in business and their inability

[1] *Nyokerwa, E (2020) 'Coronavirus is an economic crisis', The New Vision Newspaper, Kampala, 19 March, p.20*

2 Kamulegeya, F (2020) 'Corona is not yet here but its effects are already with us', The Daily Monitor Newspaper, 18 March, Page to service loans with their financial institutions. The consumers are also anticipating some surge in their purchasing power. This is anticipated to result from a reduced disposal income, since a number of people in employment hope to see a revision in their employers' ability to meet their salaries and for those in self-employment having their businesses suspended.

Amidst all the above, the business community will need to return to a positive growth trajectory as soon as possible. For this to be possible, all individuals, governments and government agencies as well as key market players (including accountants and auditors) will need to be at the fore front. Therefore, drawing on experiences from prior crises, accountants and auditors should consider a number of practices and strategies in their efforts to deal with the uncertainty and issues caused by the ongoing COVID-19 epidemic.

3.0 FINANCIAL REPORTING CONCERNS

In light of the COVID-19 crisis, businesses need to carefully consider what disclosures they might need to include in their year-end accounts relating to these events. They also need to consider whether to refer to the possible impact of COVID-19 on their business in their reporting of principal risks and uncertainties. Where mitigating actions can be taken, these should also be reported alongside the description of the risk itself.

As well as possible inclusion within the company's disclosures of principal risks and uncertainties, the carrying value of assets and liabilities might also be affected with a need to perform additional impairment tests and assess whether leases have become onerous. The discussion below gives a highlight of the possible areas of concern where accountants and auditors may need to lay significant effort during this period.

3.1 Asset Impairment

Businesses need to assess whether the impact of COVID-19 has led to any asset impairment. Their financial performance, including estimates of future cash flows and earnings, may be significantly affected by the direct or indirect impacts of recent and ongoing events. As a result of these impacts, impairment assessment of assets (in addition to the requirement to perform an impairment test at least annually of goodwill and intangible assets with an indefinite useful life) needs to be performed.

3.2 Valuation of Inventory

The valuation of inventories is also likely to be affected by COVID-19. Inventories are measured at the lower of their cost and net realisable value. In a difficult economic environment, the net realisable value calculation may warrant additional challenge and scrutiny at the reporting date. Also if the production level is low (for example, due to temporary shutdowns), there may be need to review the costing of inventories to ensure that unallocated fixed overheads are recognised in profit or loss in the period in which they are incurred.

3.3 Expected Credit Losses Review

The estimation of allowance for expected credit losses is also likely to be influenced by COVID-19 because it impacts the ability of borrowers, whether individual or corporate, to meet their obligations under loan relationships. Borrowers have a particular exposure to the economic impacts in their geography and industry sector with stringent directives on boarder and business closures coupled with an anticipated reduction in forecasts in economic growth, increase in the probability of default across many borrowers and loss given default rates may increase due to the fall in value of collateral evident more generally by falls in prices of assets.

The estimation of expected credit loss allowances may therefore require significant judgment.

3.4 Fair Value Measurement

The effects of COVID-19 should also be considered in the fair value measurements, for example of financial instruments and investment properties. The fair value measurements should reflect market participant views and market data at the measurement date under the current market conditions. Specific attention should be paid to fair value measurements based on unobservable inputs (level 3 measurements) and ensure that the unobservable input used reflects how market participants would reflect the effect of COVID-19, if any, in their expectations of future cash flows related to the asset or liability at the reporting date.

3.5 Loan Covenants

The financial implication of possible breach of covenants due to the effects of the COVID-19 epidemic also need to be addressed. Unstable trading conditions and shortages of cash flows may increase the risk that entities breach financial covenants. If any breach occurs on or before the end of the reporting date and the breach provides the lender with the right to demand payment within 12 months of the reporting date, the liability should be classified as current in the entity's financial statements in the absence of any agreements made prior to the reporting date that give rights to defer payment beyond 12 months after the reporting date.

3.6 Events after the Reporting Date

In regard to events after the end of the reporting period, careful evaluation should be made of information that becomes available after the reporting date, but before the issuance of the financial statements. Amounts in the financial statements must be adjusted to reflect events that provide evidence of conditions that existed at the end of the reporting period. Any material non-adjusting events should be disclosed and an estimate of their financial effect given (or a statement that such an estimate cannot be made).

With respect to reporting periods ending on or after 31 December 2019, it is generally appropriate to consider that the effects on an entity are the results of events that arose after the reporting date (events would include decisions made in response to the COVID-19 outbreak). These may require disclosure in the financial statements but would not affect the amounts recognised. For subsequent reporting periods, COVID-19 may affect the recognition and measurement of assets and liabilities in the financial statements.

3.7 Liquidity Risk Management

Accounting impacts on liquidity risk management as a result of the COVID-19 outbreak would also have to be assessed. Cash flows may come under pressure both during and following the outbreak period. As cash inflows could fall, firms may need to actively manage their cash inflows. Measures such as applying for tax filing and payment extensions, processing tax refunds as well as managing the timing of invoices for VAT purposes could come in handy during these times.

Similarly entities may look to obtain early settlement of their trade receivables via a financial institution buying the receivables at a discounted amount at the invoice amount. The use of these working capital techniques would have to be reflected in the entity's liquidity risk management as required by IFRS 7 Financial Instruments: Disclosures. Companies should consider their disclosure obligations regarding business risks related to the impacts of COVID-19 within the context of their local regulatory requirements. Disclosures should be specific to individual circumstances, avoiding broad or generic language.

3.8 Internal Controls over Financial Reporting

Accountants working in businesses with significant global operations need to consider internal controls over financial reporting so as to evaluate the effects on internal control over financial reporting due to the local impacts of COVID-19. For example, new controls may be implemented and/or revised as companies start to modify information technology access to enable remote workforces.

3.9 Compliance with Reporting Regulations

The economic uncertainty and volatility associated with COVID-19 may have implications on financial reporting. If accountants anticipate reporting or filing delays due to the outbreak or travel restrictions, they should contact their relevant regulatory bodies or users of the financial statements to discuss the details the details as soon as possible. Failure to follow regulations and timely reporting may have consequences unless specific agreements are in place with regulators.

3.10 Disclosure Requirements

Given the potential for rapid spreading of the virus, required disclosures will likely change over time as more information about the pandemic emerges. As a result, accountants and auditors will need to monitor developments and ensure that they are providing up to date and meaningful disclosures when preparing their year-end reports.

COVID-19 will continue to test the ability of reporting entities, auditors and regulators to remain agile in the face of evolving challenges to ensure external reporting obligations are discharged and that shareholders and investors' interests continue to be safeguarded.

When reporting in such uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into the risks and uncertainties facing the entity and the judgments that have been made in preparing financial information.

4.0 GOING CONCERN ISSUES

The spread of COVID-19 disease and its impacts requires accountants to critically assess their entities' going concern status. Close scrutiny needs to be made of the adequacy of disclosures made by management about the impact COVID-19 on the entity. Since financial statements are prepared on a going concern basis except for cases where the entity intends to cease trading, events that occurred after end of the reporting period have to be considered. Entities therefore have to make this assessment and consider all relevant future information for at least but not limited to, the twelve months after reporting date. For example, effects of travel bans, financial health of key suppliers and customers, existing financial resources and the likely period of expiry if conditions continue should be considered.

Where, in light of the COVID-19 outbreak, management determines that it intends to liquate or cease trading, or has no realistic alternative but to do so, either before or after the reporting period ends, the financial statements should no longer be prepared on a going concern basis.

For entities with reporting periods ending on or before 31 December 2019 that are severely affected by COVID-19, even though the significant impact on operations occurred after year end, it will be necessary to consider the appropriateness of preparing financial statements on a going concern basis. Any material uncertainties that cast a significant doubt on the entity's ability to continue as a going concern should be disclosed in the financial statements.

Material uncertainties that cast significant doubt on the ability to continue as a going concern such as extent of the impact on future costs and revenues and unknown duration of the impact must be disclosed.

5.0 AUDIT CONSIDERATIONS

By the time, the effects of COVID-19 started to bite in Uganda, a number of audits had commenced, but several of the audits were in the planning stage. The planned audit procedures may no longer be capable of providing the required audit evidence thus calling for auditors to modify their audit approaches. Below is a discussion of some of the expected considerations.

5.1 Communication with those Charged with Governance

In accordance with ISA 260 (Revised), Communication with those charged with governance, the auditor is required to communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit and an overview of the planned scope and timing of the audit. It is important that the auditors discuss with those charged with governance and management whether the impact of the COVID-19 has been incorporated into their risk assessment processes and how they have identified and assessed the significance of the business risks arising. They would also have to evaluate the assessment by those charged with governance as to whether risks from COVID-19 could be material, including whether users reasonably expect COVID-19 to impact the entity.

If those charged with governance and management have determined that there is no material financial impact (or reasonably expected impact) on their entity, the auditors should exercise professional scepticism when considering this assessment. Also consider if there should be disclosure in the financial report about the key assumptions made in reaching this conclusion.

5.2 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

ISA 315 (Revised), Identifying and assessing the risks of material misstatement through understanding the entity and its environment requires the auditor to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement and assertion levels. The outbreak of COVID-19 is an emerging risk that would require accountants in public practice to perform risk assessment procedures on the impact of COVID-19 on the entity and the financial report, including re-assessing the appropriateness of the going concern basis of accounting. The implications of COVID-19 should be considered when obtaining an understanding of the entity and its environment, in light of its objectives, strategies and other business risks.

5.3 Considerations for Stock Taking and Valuation

When inventory is material to the financial statements, ISA 501 Audit Evidence-Specific Considerations for Selected Items requires the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory, including attendance at physical inventory counting, unless impracticable. If attendance at physical inventory counting is impracticable, the auditor is required to perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. Measures to combat the current COVID-19 outbreak means that stocktakes may be unfeasible due to business closure or considerations for the welfare of employees. Depending on the circumstances and the auditor's professional judgment, possible alternative procedures include:

- Performance of inventory count at future dates with appropriate rollback of results to the year end.
- Reviewing results of spot checks on perpetual inventory records and arranging to test perpetual records at a later date.
- In case the COVID-19 restrictions are lifted in time for the inventory count to be done, the auditor may consider use of technological options such as time framed photos, FaceTime or other filming options to provide evidence of the year end counting process and perform checks.
- Making use of any third party stock counters.

In circumstances in which the auditor is not able to obtain sufficient and appropriate audit evidence in relation to the existence and completeness of inventory, whether at stocktake or by alternative procedures, there would be a limitation of scope. The impact of this matter on the auditor's report should be considered in line with other scope limitations and uncertainties.

Auditors should communicate with management and those charged with governance on a timely basis with respect to significant matters encountered in attendance of the inventory count, the potential delays in the auditor's reporting and expected modifications to the auditor's report.

5.4 Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures

The auditors are required to obtain sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the applicable financial reporting framework as per ISA 540 (Revised), Auditing accounting estimates, including fair value accounting estimates and related disclosures. During the execution of audits, accountants should consider the financial effects of COVID-19 by seeking to establish how the direct financial impacts are likely to involve accounting estimates prepared by management. Significant assumptions including projected cash flows, used in these accounting estimates may be affected by the COVID-19.

If the audit client has significant amounts of direct financial impacts that contain estimation uncertainty, the risk assessment and audit evidence supporting these accounting estimates and related disclosures may be affected by the COVID-19 effects.

The auditors would also have to apply appropriate audit procedures on the disclosures to assess whether they are materially correct and in accordance with the financial reporting framework. If the client has not provided sufficient disclosures, the auditor needs to consider the implications for the audit report and whether it needs to be modified in accordance with ISA 705 (Revised), Modifications to the opinion in the independent auditor's report.

If the client has concluded there is no financial impact in the current reporting period, consider if the disclosures of key assumptions supporting this are adequate. While it is important to be aware of adjustments made by the clients to reflect the impact of COVID-19 on their operations, it is equally important for auditors to apply professional scepticism and ensure that adjustments disclosed in the financial report as a result of COVID-19 are not impacted by other issues.

5.5 Subsequent Events

Financial statements may be affected by certain events that occur after the date of the financial statements. ISA 560, Subsequent events, requires the auditor to perform audit procedures to obtain sufficient audit evidence that all events occurring between the date of the financial statements and the date of auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. In line with this, the auditors need to consider if the impacts of COVID-19 require adjustment to or disclosure in the financial report based on IAS 10, Events after the reporting period and whether they impact the appropriateness of the going concern basis of accounting.

If there is a material financial impact on the client's business post balance date due to the COVID-19 event where conditions existed before the balance sheet date, then the auditor should consider if appropriate adjustments or disclosures in the financial report have been made and audit these adjustments or disclosures. If the conditions of COVID-19 outbreak existed after the balance sheet date, consider if appropriate disclosures in the financial report have been identified and audit these disclosures in accordance with ISA 560. Whilst there is no legal obligation to perform any audit procedures regarding the financial report after the date of the auditor's report, if matters associated with COVID-19 became known after the date of auditor's report but before the financial report is issued, there are specific requirements auditors must perform to ensure the auditor's report remains appropriate.

5.6 Going Concern

ISA 570 (Revised), Going Concern requires the auditor to evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. Coronavirus will nevertheless have a significant impact on a large number of businesses. Some entities which were previously a going concern may no longer be. Many that continue to be a going concern may now face material uncertainties relating to their ability to continue as such.

Evaluation of the appropriateness of the client's going concern assessment may require the auditor to consider if the impacts of COVID-19 became known after financial report has been issued and, had it been known at the date of the auditor's report may have caused an amendment to the auditor's report. The auditor needs to consider all available information up to the date of the auditor's report when concluding on the appropriateness of the client's going concern assessment.

5.7 Communicating Key Audit Matters in the Independent Auditor's Report

If it is concluded that the client has provided sufficient disclosures in the financial report and is a publically accountable entity preparing general purpose statements, consider if the event disclosed is a matter of most significance in the audit of the financial report which should be raised as a key audit matter in accordance with ISA 701, Communicating key audit matters in the independent auditor's report. ISA 701 requires auditors to determine those matters that required significant auditor attention in performing the audit. In case current circumstances relating to COVID-19 have had significant impact on the delivery of the audit, then the auditor will need to consider how to explain this in their report as a key audit matter.

6.0 PRACTICE MANAGEMENT

The outbreak of COVID-19 introduces a new dimension to managing practices. Practitioners need to revise and/or reconsider their approaches towards managing clients and staff relations but also the entire firm's business processes.

In performance of their duties, auditors follow a well-structured and documented process aimed at obtaining sufficient and appropriate audit evidence. This however, calls for having a sufficient and necessary access to audited entities' management, premises and its outlets and service providers. However, with restriction on travel, closure of client business premises in place for an undetermined period, auditors are expected to encounter unanticipated barriers to obtaining the information needed to perform audit procedures and form conclusions when audited entities have operations in affected jurisdictions, or if there are financial reporting-related functions located therein.

Therefore, based on the above, auditors need to devise mechanisms that will enable them ensure a sustained client experience, safe staff workforce but also diligent business processes that will ensure consistent delivery of high-quality audits amidst the outbreak of the COVID 19. Among other considerations, the auditors may:

i Establish a business response and continuity team - to develop a coordinated response effort but also ensure that the firms' plans are up-to-date and fit for purpose. Firms should consider updating their business continuity plans to determine meaningful activation and deactivation triggers and review continuity procedures to better understand critical staff and operations.

ii Confirm critical roles and backup plans - Firms should consider preparing temporary succession plans for key positions and critical roles in their firms. There should be a clear guidance scenario planning, both for revised decision rights and accountabilities and escalation paths for urgent decisions in case of absence of senior staff.

iii Reconsider adjusting the firm's business processes - Identify what work requires onsite attendance as clients shift from face to face meetings to teleconferences. Consider appropriate technologies, practices and policies, safeguards and training and other support efforts which can enhance a wide remote work deployment. Where the offices are to remain open there is need to evaluate what safeguards can be put in place, such as revised cleaning protocols or personal protective equipment.

iv Understand what work is mission-critical and what can be deferred or deprioritised.

v Develop plans for the whole workforce - Identify all critical contributors to the business and ensure that they are included in plans to keep the entire workforce safe.

vi Define your communication strategy and make it visible - Staff should be availed with accurate and authoritative information. They also need transparency, trying to conceal risk can potentially create more.

vii Educate employees about COVID-19 symptoms and prevention - Prioritise safety education, establish self-protection guidelines and promote awareness of risk prevention. This should be done from an informed perspective with guidance of Government information kits.

vii Establish employee support procedures for instance having a dedicated hotline for inquiries from employees.

ix Develop workforce/ labour plans and conduct scenario analysis – there is need to plan ahead after the COVID-19 situation. Amid ongoing epidemic prevention and control measures firms need to consider planning for the recovery period.

x Develop clear protocols and obligations for employees who are at risk – Firms need to have clear protocols to ensure their staff know they must self-report in the cases of high risk travel or close contact with high risk individuals. There should be clear communication about consequences for employees who are at risk and not reporting. In addition, it is worth establishing guidelines for when employees are clear to return to work.

xi Review leave policies - Firms should review their sick leave policies and procedures, including paid sick- leave programs, statutory leave and eligibility criteria for medical leaves of absence such as doctors' notes.

xii Review of social media policies and guidelines - Firms should ensure that their social media policies are properly defined for the crisis. The policy should provide clear guidelines with regard to how employees talk about the business and the impacts of COVID-19 on operations and employee health and safety.

xiii Prepare worksites for containment and contamination - Firms should ensure the safety of working environments by thoroughly cleaning and disinfecting workplaces. In the event that an employee is suspected of being infected with COVID-19, a clear process must be in place for removing that employee from the facility and for proper treatment of the facility.

xiv Update of travel and meeting protocols - For firms with high travel needs, especially international destinations, assessing the impact of the epidemic on travel is necessary as travel has been linked to the transmission of COVID-19. Firms should actively monitor the latest travel guidance, review their travel policies and be prepared to track and communicate with travellers. Firms should also have emergence plans for staff stranded away from their home locations as travel restrictions are considered or enacted and the degree to which personal international travel should be discouraged.

7.0 CONCLUSION

The impacts of the COVID-19 outbreak necessitate entities to review contracts with key suppliers and customers, employees as well as tax requirements. Where there may be uncertainty around contracts as a result of the COVID-19 situation, it is advisable for accountants to consider obtaining legal advice and then engaging in proactive discussions with the contracting parties, recognising the importance of longer term relationships and the challenges faced by many businesses in the current environment.

Employee and related tax requirements of measures like flexible working arrangements and compelling staff to take annual leave or redundancy have legal and tax implications which the accountants should carefully assess and guide their employers about.

As COVID-19 continues to cause global disruption, accountants and auditors need to use this as an opportunity to reflect on their ability to support their employers and clients respectively for them to navigate through the crisis, and going forward, consider actions to increase their resilience in the future. This should present a fundamental test but also proof of our role as ***trusted business advisors.***