

# Financial Reporting and Audit Regulation during COVID-19 Pandemic



**Dr. Parvinder Sohi Behuria**  
Chairperson  
Quality Review Board



**Mohit Baijal**  
Secretary  
Quality Review Board

The last two years of the Covid 19 pandemic have provided extraordinary challenges, both personal and professional, in every part of the world. This unprecedented pandemic has halted lives and economies around the world. It has set new economic and investment priorities for Governments. However, there have been some positives too. It has brought families closer, rekindled human values and our faith in our culture and tradition, healed the planet with clean environment (for some time), reinvigorated many nearly extinct species of birds and animals and provided “alone” time to rediscover ourselves and refocus our priorities. It has left its imprint on almost every aspect of our life. The human spirit

rose to meet these challenges and finally came hope to conquer the pandemic with vaccines, science and changes in personal and professional behavior.

However, measures taken to contain the virus affected economic activity, which in turn has implications for financial reporting. Its consequences have resulted in challenges for management, those charged with governance and auditors. There is an unprecedented level of uncertainty about the economy, future earnings and many other inputs that represent fundamental elements of financial reporting. There have been substantial and multiple financial reporting implications for preparers of financial statements for the purposes of reporting in the short and potentially medium term. The implications include not only the measurement of assets and liabilities but also disclosure and possibly an entity's ability to continue as a going concern. Going concern, in fact, sits at the very heart of the business effects of COVID-19. Where there is uncertainty about whether a business can keep going for at least a year, preparers of accounts need to describe that uncertainty in sufficient detail. The current pandemic is creating uncertainty for many businesses, and this must be described in their accounts where material.

With closed businesses and organisations and restrictions on access to people and information, auditors across the world also faced unprecedented practical challenges in performing audits during the COVID-19 pandemic. The uncertainty arising from the current environment increased the challenge in obtaining the sufficient appropriate audit evidence needed to form an independent view about the reasonableness of management's estimates and judgments. Auditors had to adjust obtaining sufficient appropriate audit evidence, revise identification and assessment of certain risks of material misstatements and change planned audit procedures by performing alternative audit procedures. At this time, one must recognize the important role that auditors have played during the crisis in maintaining high quality financial reporting. Regulators also continued to provide necessary guidance to auditors helping them cope with these challenging times. Actually, the current circumstances also brought many new opportunities for auditors to do things differently by using new or reorienting the use of existing technology resources. Companies obtained information in new or different ways and/or operated controls over the production of financial information differently. Audit firms have also pivoted to remote working, utilizing various technology tools available.

Auditors have to exercise significant professional judgment and professional skepticism and must remain focused on their ethical responsibilities and the public interest including compliance with the fundamental principles (integrity, objectivity, professional competence and due care, confidentiality and professional behavior), which is key to preservation and expansion of public trust in all auditors.

It is, therefore, vital that procedure and terminology relating to a business's accounts are understood and applied properly and consistently. Equally crucial is the need for accounts to be transparent in the way they show the true impact of the crisis on a company's performance and prospects. Assessing whether accounts are 'true and fair' requires judgements on whether assets, liabilities and profits are presented adequately and appropriately. That, in turn, requires judgements on when such assets, liabilities and profits exist and how they should be measured. They can all be affected by the uncertainty of a crisis. The rigour that both preparers and auditors apply to making these tough judgements and detailed assessments will be crucial for businesses and economies at such a volatile time.

Audit regulators across the world also recognized the importance of audit's contribution in maintaining high quality financial reporting during this time and stressed the need for audit firms to fully comply with required standards

despite, and in light of, the significant impacts of COVID-19 – when investors and other stakeholders may have greater need for high-quality financial information than ever. Many regulators have issued announcements, statements and guidelines of import to the audit community during this crisis. Many public communications have been issued to draw the attention of auditors, companies and others to the audit, accounting and disclosure implications of the COVID-19 pandemic and its likely impact to audits of financial statements; as well as the related steps many regulators have taken, such as the extension of filing deadlines, temporary relief from on-site inspections, and the provision of timely updates to firms and stakeholders as to regulator expectations.

At the level of Quality Review Board, established by the Central Government of India under the Chartered Accountants Act, 1949, we have also put in place various measures such as adapting remote working arrangements, option of temporary relief from on-site inspections and adjusting the timing of inspection activity.

During financial year 2020-21, QRB completed 34 reviews of audit quality of 33 entities in India. Out of these 34 completed reviews, QRB issued advisories to concerned Audit firms for further improvement in 25 cases and 2 cases were recommended to the Council of the ICAI for referring them to the Disciplinary Directorate of the ICAI for further necessary action. Other 7 cases were closed. Quality Review Board has also embarked upon a new initiative which seeks to conduct Thematic Review of Audit Firms' Quality Control Procedures, through on-line Questionnaire mode, which would supplement the normal programme of reviews of Audit firms by the Quality Review Board. In this thematic review, QRB would look at firms' quality control policies and procedures in respect of audits of entities other than those specified in Rule 3(1) of NFRA Rules, 2018 to make comparison between firms with a view to identifying both good practices and areas of common weaknesses. QRB will subsequently target such vulnerable areas for further insightful education. QRB has decided to initially conduct these reviews for Audit firms having 10 or more partners. Such reviews would be deeply focused on the selected aspect of audit firm's quality control procedures in much greater depth than is generally possible in a normal quality review. It is hoped these thematic reviews would also be of help to Audit firms in developing or enhancing and evolving their quality control procedures, contributing to their own processes of continuous improvement to enhance audit quality. It should also be of interest to Audit committees and other stakeholders.

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