

Unveiling the Impact of COVID-19 on the Accounting and Auditing Profession in the light of Subsequent Events-- Algeria as a case study-

Dr. CHABLAOUI Brahim

Ibn Khaldoun University-Tiaret: brahim.chablaoui@univ-tiaret.dz

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Abstract

This research aims to shed light on the effects of coronavirus pandemic on the financial statements through identifying the reflections of the events after the reporting period on the accounting and auditing profession. As long as the National Accounting Council has taken a number of actions relating to the COVID-19 pandemic, these procedures and measures include the updates on the financial reporting processes, disclosures in financial statements and the auditor's report. These latter, indeed, have given several benefits to ease the tasks of the external auditors and a better range of strategies for dealing with the financial statements that might be affected by the COVID-19. Additionally, the government seeks to make its local environment for external auditing compatible with the international audit environment.

Keywords: Covid 19; the financial statements; external auditor; the international audit environment.

I- Introduction:

The spread of the COVID-19 pandemic in early 2020 has led to unprecedented economic crisis world-wide. Hence, this latter has affected the accounting and auditing activities in Algeria and in the other countries. Most accounting and auditing standards are likely to be affected by the pandemic, either directly or indirectly, and the subsequent events may have significant effects on the financial reporting and external audit tasks. Therefore, the international organizations (IFAC and IASB) and the national organization (National Accounting Council) have quickly made available advice and guidance on the accounting and financial reporting requirements that need to be considered in addressing the financial effects of COVID-19 when preparing and auditing financial statements. To reach this end, we raised the following questions:

How should accountants and external auditors assess COVID-19 events after the reporting date? Are there any accounting and auditing profession implications of Corona-virus due to subsequent events? In order to proceed, we hypothesized that there could be a myriad of accounting and auditing implications which are reflected owing to the unexpected pandemic.

Research importance:

Nowadays, Corona-virus was the most effectual event in many fields. This pandemic has affected our lives in many different ways, its influence overwhelmed the works of external auditors in the current circumstances.

Furthermore, a number of measures were taken considerably to address this situation. This is why, the importance of this research emerges from the significance of audit and accounting updates and their impact on the external audit profession at this period of time.

Research objective:

In addition to attempting to clarify the all audit and accounting updates and their influence on the external audit profession, this study seeks to provide an in-depth understanding of the effects of the pandemic on the auditing regulatory framework of the national and international auditing environment.

Research Methodology:

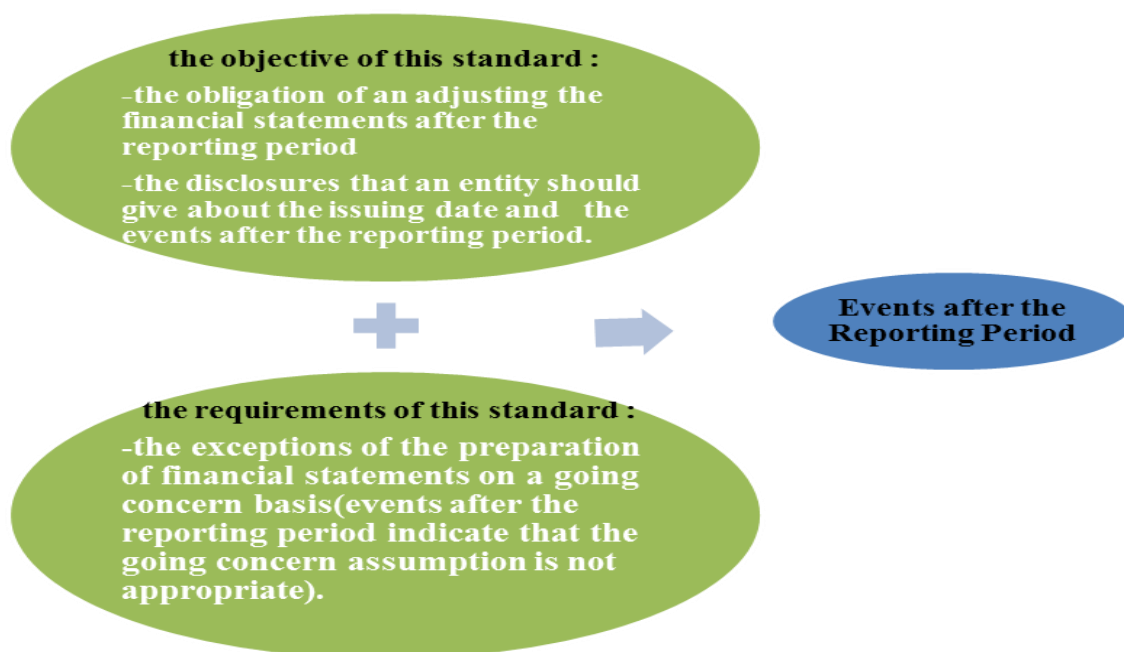
The descriptive analytical approach has been used in this research whereby three subsequent parts were underlined:

- a) **First part:** Accounting implications of Corona-virus due to the subsequent events
- b) **Second part:** Auditing implications of Corona-virus due to the subsequent events
- c) **Third part:** The reflections of Corona-virus pandemic on the accounting and auditing profession regarding of subsequent events.

2. Accounting Major Implications

The pandemic outbreak poses many effects on the accounting environment. However, the International Accounting Standard 10 " Events after the Reporting Period "is one of the most important standards which was affected. In this regard, there is a number of factors that affect the events after the Reporting Period and we could likely determine these elements in the following figure:

Figure (1): The objective of the Events after the Reporting Period



Source: Prepared by the researchers based on (International Financial Reporting Standards (IFRS), 2015)

2.1 The adjusting and non-adjusting events after the Reporting Period

The global situation is evolving rapidly. Management should therefore consider the requirements of IAS 10, and in particular whether the latest developments provide more information about the spread of the virus and the related points might be adjusting or non-adjusting (TONY Debell, 2020). We could illustrate the adjusting and non-adjusting events after the Reporting Period in the following table:

Table (1) : The adjusting and non-adjusting events

Type of Subsequent Event	Definition and Impact
Adjusting events	Events that provide evidence of conditions that existed at the end of the reporting period (i.e., at the date of the financial statements). Impact: Adjust the amounts recognized in the financial statements.
Non-adjusting events	Events that are indicative of conditions that arose after the reporting period (i.e., after the date of the financial statements). Impact: Disclose the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

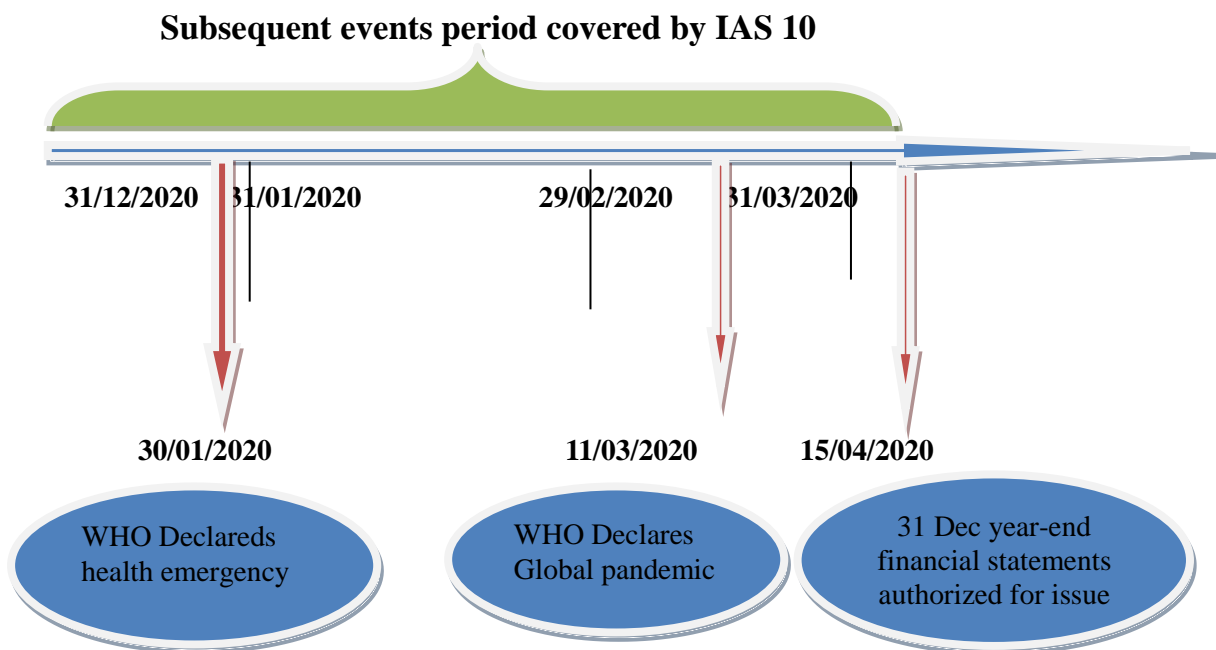
Source: ((IFAC), 2020)

2.2 The financial reporting effects under the COVID-19 outbreak

The situation on December 31, 2019 was limited to a number of cases of an unknown

virus which had been reported to the World Health Organization. There was no explicit evidence of human-to-human transmission on that date owing to a set of conditions that were diffused (PWO, 2020). Therefore, it is necessary to consider whether the events that have occurred after an entity’s 31 December 2019 reporting date in relation to the virus have caused a significant deterioration in economic conditions for an entity, or they have introduced a significant uncertainty. If so, an assessment is needed of whether these results in significant doubt on the entity’s ability to continue as a going concern. In extreme cases, consideration will be needed of whether the financial statements of the period of the 31st December 2019 should be prepared on a going concern basis (IFRB, 2020). Consequently, we can say that the financial reporting effects under the COVID-19 outbreak has occurred in most countries in the world and we could identify this case in the following figure:

Figure (2): Considerations for assessing events after the reporting period



Source: (KPMG IFRG Limited, 2020)

3. Auditing implications of Corona-virus

Global developments relating to the COVID-19 pandemic have also influenced the external audit's environment. Yet, we can summarize the most important standards which were affected by this epidemic in the following table:

Table (2): The list of the International Standards on Auditing

The number of the standard	The name of the standard
General Principals And Responsibilities	
315	Identifying and Assessing the Risks of Material Misstatement through

	Understanding the Entity and Its Environment
330	The Auditor's Responses to Assessed Risks_
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
560	Subsequent Events
570	Going Concern
600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)
700	Forming an Opinion and Reporting on Financial Statements
701	Communicating Key Audit Matters in the Independent Auditor's Report
720	The Auditor's Responsibilities Relating to Other Information

Source: ((IAASB), 2018)

3.1 Auditing implications of Corona-Virus

Financial statements may be affected by certain events that occur after the date of the financial statements and many financial reporting frameworks specifically referring to such events. Such financial reporting frameworks ordinarily identify two types of events (IAASB, 2018, p. 570):

- Those that provide evidence of conditions that existed on the date of the financial statements
- Those that provide evidence of conditions that arose after the date of the financial statements.

Auditors are required to perform procedures to obtain sufficient appropriate audit evidence in relation to events occurring between the balance sheet date and the date of the auditor's report. For entities reporting on the 31st of December 2019, the COVID-19 outbreak is unlikely to be an adjusting post balance sheet event, as the corona-virus was not discovered until January 2020 and therefore it does not provide evidence in relation to conditions existing at the balance sheet date (CPA Ireland, 2020). Moreover, it can illustrate these periods in the following figure:

Figure (3): the date of the financial statements

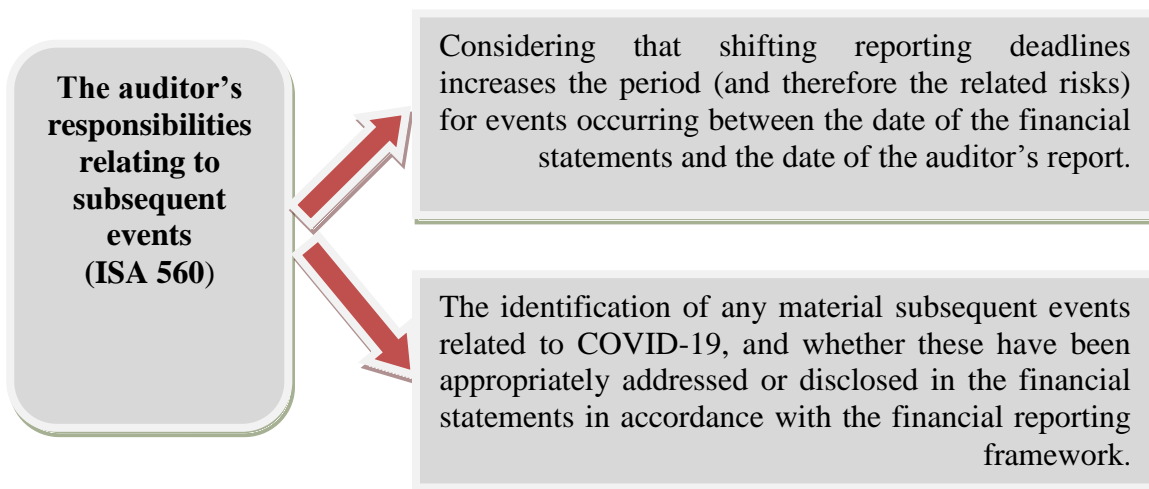


Source: (IFAC, 2020)

In accordance with ISA 560, *Subsequent Events* auditors are required to perform

procedures that are designed to obtain sufficient audit evidence that all events requiring adjustment of, or disclosure in, the financial statements, occurring between the date of the financial statements and the auditor’s report, have been identified and appropriately reflected in the financial statements in accordance with the applicable financial reporting framework (IFAC, 2020). Therefore, ISA 560, Subsequent Events, is considered as a prominent standard which is influenced by the COVID-19 outbreak. Henceforth, we will display the main effects of this standard in the following figure:

Figure (4): Specific Matters for Consideration about ISA 560



Source: (IAASB, 2020, p. 3)

4. The reflections of Corona-virus pandemic on the accounting and auditing profession

The following table will depict the reflections of Corona-virus pandemic on the accounting and auditing profession:

Table (4): The reflections of the COVID 19 on the issuing of the financial statements

The effects of the COVID 19 on the issuing of the financial statements	
subsequent events from the accounting side	Subsequent events from the auditing side
<p>- The dealing with the financial statements of 2019 and the concept of Going Concern:</p> <p>- The assessment of the continuity of the entity's activities by its corporate bodies must be based on convincing depreciation parameters, which must be</p>	<p>- The dealing with the financial statements of 2019 and the concept of Going Concern:</p> <p>- The commitment of the procedures contained in the "NAA 560" standard " Subsequent Events" is such as to collect the probative elements on the events which</p>

<p>included in the management report and in the Appendix.</p> <p>The management report should include in particular:</p> <ul style="list-style-type: none"> - Argumentation of the option for the continuity of operations: low impact of the pandemic on the entity, inclusion of the latter in the sector potentially eligible for State aid, capacity of the entity to overcome the effects of the event itself etc. - The nature of the economic, social and financial impact of the effects of the pandemic on the entity: reduction of load plans, destruction of markets upstream and downstream of the activities of the entity, impediments to the realization of a business plan already drawn up, foreseeable cash flow difficulties with regard to payment deadlines... - The actions that the entity plans to take to limit or halt, in the near future, the effects of the crisis - The annex should report on: <ul style="list-style-type: none"> ❖ any corrections made to the financial statements by observing the principles mentioned above; ❖ approaches implemented for the identification of these impacts on the situations after the closed financial year; ❖ methods used to assess the incidence of these impacts. 	<p>occurred between the date of closing of the accounts and the date of presentation of the external audit report.</p> <ul style="list-style-type: none"> - Carrying out the procedures set out in the “NAA 570” standard enables the external auditor to assess the extent to which the management of the entity has: <ul style="list-style-type: none"> ❖ Objectively applies or not the basic assumption of going concern, in the establishment of its financial statements; ❖ Appropriately taking into account the principles of adjustments required by the events occurring after the closing date of the accounts; ❖ Displays the assets at their net asset values, in the event that the subsequent event imposes an immediate and unavoidable liquidation; ❖ Include in the notes of the financial statements all the information useful for assessing the situation of the entity. - In his report, the auditor must express his opinion on: <ul style="list-style-type: none"> ❖ The soundness of the arguments of the managers of the entity as to the continuity of operations; ❖ The conformity of the method of processing the event for the preparation of the financial statements for 2019; ❖ The convincing nature of the repercussions of the event identified by the management of the entity; ❖ The relevance of the method for evaluating the impacts of these spinoffs; ❖ The consistency and quality of the information provided in the appendix.
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Source: (Commission for the Standardization of Accounting Practices and Professional Diligence, 2020)

The table presents the effects of COVID 19 on the issuing of the financial statements. Thus, the implications for financial statements include not only the points which we have

mentioned in the table above, but there are other implications, including the measurements of assets and liabilities. Therefore, we can see from the table above that there are strong correlations between the standards of auditing and accounting, especially between the auditor's responsibilities relating to going concern and the auditor's responsibilities relating to subsequent events. Besides, the table illustrates forming an opinion and reporting on financial statements and the auditor's responsibilities relating to other information in documents containing audited financial statements.

Recommendations

Based on this study, we recommend the following points:

- a. The external auditors should determine and study rigorously all the subsequent events in order to detect which events are Adjusting or Non-adjusting in the steps of preparing and issuing the financial statements.
- b. The external auditors should focus more on the going concern assumption, the disclose nature of the event and an estimate of its financial effect.
- c. The National Accountancy Board should concentrate on the most important areas that need to be considered further in the planning and implementation of audit procedures in order to obtain sufficient and appropriate audit evidence in these exceptional circumstances, and improve the quality of the financial reports respectively.

Conclusion

The conclusion that can be drawn from this endeavour is that the global developments relating to the COVID-19 pandemic have affected the main aspects and tasks of the accounting and auditing environment, such as the financial statements via the reflections of the events after the reporting period on the accounting and auditing profession. Therefore, the Algerian government has taken a number of actions through the National Accounting Council, including the refinement of a number of aspects on the functioning of the prudential framework with the aim to provide explications to the accounting and auditing treatment. In a nutshell, the important updates which have been undertaken by the Algerian government in the field of auditing and accounting were pre-requisite in order to make available advice and guidance on the accounting and financial reporting requirements that need, likewise, to be regarded in addressing the financial effects of COVID-19 when preparing and auditing financial statements.

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