Impact of the Ukraine war on the financial statements and their audit

Technical guidance by the IDW

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1. Preliminary remarks

The invasion of the Ukraine by Russian forces on 24 February 2022 constitutes a far-reaching event that will also leave clear traces in the global economy and thus in corporate financial reporting. The impacts were immediately felt in the commodities and financial markets, and the democratic states united in imposing harsh sanctions against Russia. The consequences for Russia and the imposing states are immediately apparent, but in the longer term there will also be significant consequences for the global economy. At present, it is hardly possible to comment on how long this crisis will last, which may also be intensified by further actions on the part of Russia.

Certain parallels to the beginning of the Corona pandemic are evident in regard to the possible consequences for financial reporting and auditing. Many financial statements as of 31 December 2021, which has just passed, have either not yet been (finally) prepared and audited or have not yet been adopted or approved. In the case of financial statements that have been audited, the date of completion of their preparation corresponds to the date of the auditor's report or the date of its issuance. The question of significance for the financial statements and the audit of the financial statements of affected companies comes to the fore. Such questions relate to the content of reporting on subsequent events in the notes to the financial statements and management report [hereinafter “supplementary reporting”] in particular. These act as a kind of “corrective”, since reflection of post balance sheet events in the statement of financial position and the statement of financial performance is not permitted under the reporting date principle. For balance sheet dates after the outbreak of war, numerous follow-up questions will arise.

Significant risks affect the entire economy, e.g., within its supply chains (especially with regard to energy demand), on its sales markets, or with regard to the supply of credit by banks or from cyber-attacks. Such risks then indirectly affect the entire financial sector (value of investments in the economy, inflation, etc.). The extent of any resources the public sector will make available in the form of government support measures remains an overarching question. In addition, it is abundantly clear that the path to a sustainable transformation of the economy will have to be reconsidered without – and this should be clearly emphasized – losing sight of the goal.

As an immediate reaction to the outbreak of the Corona pandemic, the IDW published technical notes which were continuously updated, to provide the profession and companies with guidelines for dealing with the evolving situation. This paper on the consequences for financial reporting and auditing is intended to follow this example. The initial focus is on questions relating to the reporting date of 31 December 2021. Further relevant questions and answers will be published in future updates. Necessary consequences for the end of the first quarter of the current year will be addressed in particular.
These explanations apply across the board, regardless of the sector to which the company belongs. Special features of certain sectors (especially in the financial sector or in the energy sector) will be included as necessary in the form of supplements to this technical guidance. In addition, the IDW will also address the long-term consequences for the economy and the profession going forward.

In order to ensure the paper can be used as a stand-alone reference document, references to other sources (especially the technical guidance on the Corona pandemic) are limited to what is necessary.

2. Effects on the financial statements as at the reporting date 31 December 2021

2.1. Reporting in the notes and in the management report

Question 2.1.1.: How should the post reporting date event “Ukraine war” be qualified for the purposes of HGB [Handelsgesetzbuch: German Commercial Code] accounting and IFRS accounting (adjusting event vs non-adjusting event)?

**HGB accounting**

The direct and indirect effects of the war are to be classified as non-adjusting events with regard to reporting dates prior to 24 February 2022. The unlawful crossing of the borders of Ukrainian territory (or the entry into Ukrainian airspace) by the Russian military on that very day is to be regarded as the decisive event. According to the reporting date principle (Article 252 para. 1 no. 3 (if applicable in conjunction with Article 298 para. 1) HGB), the accounting consequences (measurement and recognition) are in principle only to be taken into account in the (consolidated) balance sheet and (consolidated) income statement of consolidated/annual financial statements with a reporting date after 23 February 2022. Only in cases in which the going concern assumption can no longer be maintained due to the effects of the war (cf. IDW AcS HFA 17, para. 2, in conjunction with IDW AuS 203 (Revised), para. 9) something else would apply.

**IFRS accounting**

Events that provide (further) substantial evidence of conditions that already existed at the end of the reporting period must be taken into account (adjusting events) and require an adjustment of the corresponding amounts in the financial statements (IAS 10.3(a) in conjunction with IAS 10.8). In contrast, events that indicate conditions that arose after the reporting period may not be taken into account in the statement of financial position and statement of financial performance (non-adjusting events) (IAS 10.3(b) in conjunction with IAS 10.10). The guidance above on HGB accounting also applies to the qualification of the direct and indirect effects of
the outbreak of war as a non-adjusting event in annual or consolidated financial statements prepared in accordance with IFRS as at a reporting date prior to 24 February 2022.

A deterioration in the financial position and operating results that occurs after the reporting period may indicate a need to consider whether the preparation of the financial statements on the basis of the going concern assumption is still appropriate (IAS 10.15). For this purpose, the company must consider all available information about the future (but at least the first twelve months after the reporting period) (IAS 1.26).

**Question 2.1.2.:**

_How does the outbreak of the Ukraine war affect the supplementary reporting in the (consolidated) notes in HGB accounts and IFRS financial statements?_

Since the outbreak of war is to be classified as a non-adjusting event according to the guidance to question 2.1.1., this must be reported in the (consolidated) notes to the (consolidated) accounts pursuant to [German] commercial law as at 31 December 2021 if there is an “event of special significance” according to Article 285 no. 33 or Article 314 para. 1 no. 25 HGB. In this supplementary reporting, the nature and financial effects of the event must be disclosed. The decision of whether the outbreak of war (and the associated direct and indirect economic consequences) is then of special significance for the individual company must be made on a case-by-case basis. In general, an event is of particular significance if its effects are likely to influence the view conveyed by the financial statements as at the reporting date and if, in the absence of the supplementary reporting, this would lead the financial statement users to a significantly different assessment of the entity’s significantly different future.

A general reference to the outbreak of the Ukraine war is sufficient to fulfil the requirement to disclose the type of event in the (group) notes. The presentation of the financial effects must take into account the net assets, financial position and results of operations, insofar as these are affected. Concrete quantitative information is not required; qualitative reporting is sufficient. However, the verbal explanations must sufficiently clarify the effects on the economic situation of the entity as a whole or on these three aspects, respectively (if affected). The purpose of this provision is to provide the financial statement users with at least basic information relevant to the further development of the entity as a basis for their decisions, and so this should be taken as the benchmark. In the context of supplementary reporting, the period for which financial effects are to be disclosed extends appropriately from the beginning of the following financial year to the time of completion of the preparation of the annual financial statements (in the case of audited financial statements, this is the date the auditor’s report is issued).

According to IFRS, if a non-adjusting is material, the nature of the event must be disclosed (IAS 10.21(a)). According to IAS 10.21(b), an estimate of its financial effect, or a statement that such an estimate cannot be made must also be disclosed in the notes.
**Question 2.1.3.:**

What are the specific effects of the outbreak of the Ukraine war on the HGB annual financial statements of a small or micro-sized corporation or on an entity that prepares its annual accounts in accordance with the provisions of commercial law applicable to all merchants?

According to Article 264 para. 1 sentence 4 half-sentence 1 HGB the executive directors of small corporations (Article 267 para. 1 HGB) are not obliged to prepare a management report. Pursuant to Article 288 para. 1 no. 1 HGB, they also do not need to include a supplementary report (Article 285 no. 33 HGB) in the notes. For micro-corporations (Article 267a para. 1 HGB) neither a management report (Article 267a para. 2 in conjunction with Article 264 para. 1 sentence 4 half-sentence 1 HGB) nor notes are required (Article 264 para. 1 sentence 5 HGB). This also applies to entities that prepare their annual financial statements in accordance with the provisions of [German] commercial law applicable to all merchants (e.g., partnerships with unlimited liability or companies that make use of the exemption provisions of Articles 264 para. 3, 264b HGB when preparing their annual financial statements). Consequently, it is questionable whether the outbreak of the Ukraine war nevertheless gives rise to reporting obligations for such entities.

In view of the explicit legal exemption regulations with regard to supplementary reporting and the management report, the legislator has judged any corresponding reporting to be unnecessary. However, if there are material uncertainties in connection with events and circumstances that could raise significant doubts about the entity's ability to continue as a going concern (so-called going concern risks), the reporting entity must disclose them (IDW AuS 270 (Revised), para. 9; see question 2.1.5.). Small corporations that do not voluntarily prepare a management report must include such a disclosure in the notes. For micro-corporations and entities that prepare their annual financial statements in accordance with the provisions of commercial law applicable to all merchants (and do not voluntarily prepare notes and/or a management report), the disclosure is to be presented e.g., below the balance sheet.

**Question 2.1.4.:**

Is it possible to dispense with an otherwise obligatory supplementary reporting in the notes to the accounts (Article 285 no. 33 HGB) by reference to the reporting in the management report?

The German Commercial Code does not provide for an explicit reference option and a waiver of disclosure in one of the reporting elements. Thus, in principle, the relevant disclosure requirement must be fulfilled both in the notes and in the management report. Due to the similar content of the reports, duplication cannot be ruled out. In order to increase transparency for the financial statement users and enhance the clarity of reporting – a single central placement
of future-related information on the effects of the outbreak of the Ukraine war – is viewed as permissible when the supplementary report refers to the disclosures in the management report provided identical information would otherwise have to be included in both places. The same applies to the reverse case of the recommended reference in the management report to the information in the supplementary report (GAS 20.114). The references in the supplementary report to the management report or in the management report to the supplementary report must be unambiguous and clearly recognizable.

**Question 2.1.5:**

**Which disclosure requirements have to be observed in the case of material uncertainties in the assessment of the going concern assumption (HGB and IFRS)?**

In preparing financial statements, management is required to make an assessment of the entity's ability to continue as a going concern. If the financial statements may be prepared on the basis of the going concern assumption but, notwithstanding this, there are material uncertainties in connection with events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern (= going concern risks within the meaning of *IDW AuS 270 (Revised)*), the preparer of the financial statements must disclose this fact and the planned way of addressing these risks in the notes or, if there are no notes, e.g. below the balance sheet. It is advisable to make this disclosure in the supplementary report or at the beginning of the notes (if necessary, with reference to the supplementary report). In addition, if a management report is prepared, the risks threatening the existence of the entity must be disclosed in the management report, whereby the risks must be explicitly named as threatening the existence of the company (*IDW AuS 270 (Revised)*, para. 4, 24 et seq.).

It is not sufficient to include only a general reference to risks threatening the existence of the company as a result of existing uncertainties about the further course of the war in Ukraine and its direct and indirect effects on the entity's business activities in the notes or management report. In order to meet the information needs of the financial statement users, the executive directors must, in accordance with *IDW AuS 270 (Revised)*, para. 9, clearly and unambiguously disclose in the financial statements the most important events or circumstances that may cast significant doubts on the company's ability to continue as a going concern and the plans for dealing with these events or circumstances. For this purpose, it may be useful to present different scenarios with an indication of the assumptions made. The executive directors must also clearly disclose in the financial statements that there is a material uncertainty related to events or conditions that may cast doubt on the entity's ability to continue as a going concern and that the entity may not be able to realize its assets and settle its liabilities in the normal course of business (going concern risk).
IFRS explicitly require management to report material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (IAS 1.25). On 13 January 2021, the IFRS Foundation published educational material for the assessment of the going concern premise and the required disclosures. The guidance is intended to support the consistent application of IFRS. They do not amend or supplement existing requirements, but instead summarize the requirements of relevant standards. Accordingly, the IFRS Foundation first refers to the regulations of IAS 1.25 et seq., but emphasizes that, with regard to the assessment of the going concern assumption, not only the specific regulations and disclosure requirements according to IAS 1.25 et seq. must be observed, but also the overarching disclosure requirements in IAS 1. This includes, in particular, the disclosures according to IAS 1.122 on judgements made by management in the application of accounting methods that have the most significant effect on the amounts recognized in the financial statements. The disclosure requirement in IAS 1.122 also applies to management's “close call” judgements regarding the assessment of the going concern assumption or the existence of a material uncertainty (see IFRIC Update, July 2014, p. 6). In addition, disclosures on sources of estimation uncertainty may become relevant in accordance with IAS 1.125-133.

Question 2.1.6:

How does the outbreak of the Ukraine war affect (group) management report? What requirements are to be placed on the accuracy of the forecasts in the (group) management report?

In many cases the outbreak of the Ukraine war will be reflected in the (group) management reports for financial years ending on 31 December 2021, at least in the risk reports. In principle, if the possible further developments can lead to negative deviations from the entity’s or the group’s forecasts or targets, and if this concerns a significant individual risk and otherwise no accurate picture of the entity’s or the group’s risk situation is conveyed there is an obligation to disclose in the risk report (see GAS 20.11 and 20.146 et seq.; on the requirement to take into account risks that have arisen after the end of the reporting period, see GAS 20.155). If current events have already given rise to a change in management’s expectations with regard to the forecast performance indicators, this must be appropriately reflected in the forecast report. GAS 20.130 generally requires forecasts to be included in the (group) management report to constitute point forecasts, interval forecasts or qualified comparative forecasts. According to GAS 20.133, entities or groups need to report by way of exception, “[i]f special circumstances result in an unusually high level of uncertainty surrounding the future development because of the macroeconomic environment, and the entity’s ability to make

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1 See IFRS Foundation, Educational material, Going concern - a focus on disclosure, January 2021, available at: https://www.ifrs.org/news-and-events/2021/01/ifrs-foundation-publishes-edu-material-to-support-companies-in-applying-going-concern-requirements/.

forecasts is therefore significantly impaired, [instead only] comparative forecasts or the presentation of the expected development in various scenarios of the financial and non-financial key performance indicators used for internal management purposes are sufficient, whereby the assumptions applied in each case shall be disclosed''. In the opinion of the IDW, the requirements for claiming this relief may be met for companies whose activities are or are reasonably expected to be significantly affected by the direct and/or, above all, the indirect effects of the war in Ukraine. However, the relief may only be used if the two conditions mentioned in GAS 20.133 (unusually high level of uncertainty surrounding the future development because of the macroeconomic environment; significant impairment of the entity's/group's ability to make forecasts) are fulfilled cumulatively. A general reference to the Ukraine war and its consequences alone is not sufficient. Whether the requirements are fulfilled must be properly assessed on the basis of the circumstances existing at the time of the completion of the preparation of the (group) management report, i.e., generally the time of the auditor's report is issued. With regard to those (group) management reports, whose preparation will be completed close to the outbreak of war (24 February 2022) the IDW is of the view that it can generally be assumed that the condition of an exceptionally high degree of uncertainty with regard to future prospects due to macroeconomic conditions is fulfilled. It is currently not possible to predict how the degree of uncertainty may change with increasing time between the date of the outbreak of war and the date of completion of the preparation of the (group) management report, so an individual case assessment is required at the time of preparation. The second prerequisite, a significant impairment of the company's or group's ability to forecast, presupposes a high level of impact on the individual entity or group resulting from the direct and/or indirect effects of war, which must be demonstrated by the preparer of the financial statements.

A complete waiver of forecast reporting is not permissible.

**Question 2.1.7.:**

What impact can the outbreak of the Ukraine war have on financial reporting if the annual/consolidated financial statements and, if applicable, the (group) management report have already been prepared and audited before 24 February 2022, but the annual/consolidated financial statements had not yet been adopted or approved up to that date?

If the annual/consolidated financial statements had not already been adopted or approved by the competent corporate body prior to the outbreak of war (24 February 2022), it is incumbent upon this body to decide whether the developments that have occurred since the completion of the preparation and the audit of the annual/consolidated financial statements and the (group) management report are of such significant importance for the entity or the group that the audited annual/consolidated financial statements (here: the supplementary report) and/or the audited (group) management report still need to be amended prior to the adoption or approval
of the annual/consolidated financial statements. In any case, it will be assumed that such an amendment will be required in those cases in which the going concern assumption can no longer be maintained due to the direct and/or indirect effects of the Ukraine war. When the annual/consolidated financial statements and/or (consolidated) management report are revised, this entails the requirement for a supplementary audit pursuant to Article 316 para. 3 sentences 1 and 2 HGB (see also question 3.8.1.).

2.2. Other aspects

**Question 2.2.1.:**

What impact can the outbreak of the Ukraine war have on the requirement to include Ukrainian, Russian or Belarusian subsidiaries in the consolidated financial statements (HGB and IFRS)?

Pursuant to Article 296 para. 1 no. 2 HGB, a subsidiary need not be included in the consolidated financial statements by way of full consolidation if the information required for the preparation of the consolidated financial statements cannot be obtained without disproportionate costs or unreasonable delay. In the IDW’s opinion, the effects of the outbreak of the Ukraine war can fulfil the conditions for an unreasonable delay within the meaning of this provision in individual cases if the so-called “reporting packages” cannot be delivered to the parent company or can only be delivered with considerable delay. This does not apply if it is possible to make a suitable extrapolation of financial information already available or if preliminary figures are available that can be adjusted selectively with reasonable effort. If inclusion by way of full consolidation is not (or no longer) possible according to the above explanations, the executive directors of the parent company must examine – except where Article 290 para. 5 HGB applies, i.e., when the group financial reporting obligation continues to apply – whether the investment in the subsidiary concerned is to be measured subsidiarily in the consolidated financial statements at its equity value according to Article 312 HGB (GAS 26.11). If, under Article 296 para. 1 no. 2 HGB, an equity valuation is also ruled out, the investment must be measured in the consolidated financial statements at (amortized) cost. In the case of a transition from full consolidation to the equity method or to the measurement of the holding at (amortized) cost, a transitional consolidation (in this case a downward consolidation) is to be carried out in accordance with GAS 23.187-190. The permissible use of the full consolidation option must be justified in the notes to the consolidated financial statements in accordance with Article 296 para. 3 HGB.

Under IFRS accounting, there is no explicit consolidation option comparable to the regulations of Article 296 para. 1 no. 2 HGB.
3. Impact on the audit of the financial statements

3.1. Impact of war induced events on risk identification and assessment

**Question 3.1.1.:**

Is there an increased risk of material misstatement in the financial statements in connection with the current war induced events?

In some cases, yes. The impact of the Ukraine war may increase the risk of material misstatement resulting both from error and from fraud. As part of the auditor’s risk assessment, the auditor must assess the factors for any possible increased risk.

An increased risk of misstatements in the financial statements as at 31 December 2021 resulting from errors may impact the supplementary report in the notes in particular (see questions 2.1.2. to 2.1.4.) as well as the forecast report and the risk report within the management report (question 2.1.6.). This may be the case, for example, when potential adjusting events occur shortly before the planned date of the auditor’s report and management is under high time pressure in determining and reflecting the events in the financial statements and the management report.

Furthermore, the risk of misstatement due to error in the forecast report and risk report within the management report may be increased if, as a result of the war induced events, the forecasting uncertainty has increased significantly from the point of view of the audited entity (see IDW AsS 350 *(Revised)*, para. 43 et seq.). Forecasting uncertainty may be increased in the following cases, for example:

- The supply chains (procurement side) involve entities with their headquarters and/or main area of activity in the war zone.
- The supply chains (procurement side) involve companies that are subject to sanctions, e.g. by the European Union or the USA.
- Major sales markets are within the war zone.
- Major sales markets are no longer accessible as before due to sanctions against previous business partners or the entity withdraws voluntarily from these markets.
- The likely development of the projected financial performance indicators depends significantly on the development of the capital markets.
- The entity has made high investments in the war zone or in Russia/Belarus and/or has high amounts due from business partners directly or indirectly affected by the Ukraine war.
- The entity operates an energy-intensive production and is expected to be severely affected by rising energy prices as a result of the war induced events.
• The entity is an electricity and gas supplier who is affected by rising costs of security deposits in trading as well as replacement risk in the event of a default by its contractual partners.

• The entity operates in an industry that will be strongly affected by a weakening investment and consumer climate as a result of the war.

The auditor's risk identification and assessment procedures also include the identification of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (see IDW AuS 270 (Revised), para. 15 and A5). The impact of the war induced events may lead to such events or circumstances (for the assessment and evaluation of the going concern assumption, see question 2.1.5. or section 3.3.).

The risk of material misstatement due to fraud may be increased, in particular, if the entity fears a slump in demand due to the war induced events and the management is under high pressure, for example, to achieve certain financial targets in the future or there are incentives to maximize the financial targets for the financial year subject to audit.

3.2. Determination of relevant events occurring after the reporting period

Question 3.2.1.: The development of the war and the reactions to it in the form of sanctions and other measures may lead to events relevant to the supplementary report or the disclosure in the management report occurring (possibly shortly) before the planned date of the auditor's report. How can the auditor react in this situation in order to assess whether the events have been appropriately reflected in the financial statements and, where applicable, the management report?

The auditor has to assess the effects of events after the reporting period on the entity’s financial reporting as well as on the auditor’s reporting in the long-form audit report and the auditor’s report. By performing suitable audit procedures, the auditor must obtain sufficient appropriate audit evidence to identify events between the balance sheet date and the date of the auditor's report that may have an impact on the financial reporting (see IDW AuS 203 (Revised), para. 11; ISA [DE] 560, para. 6). The potential effects on financial reporting include, for example, necessary disclosures in the supplementary report for non-adjusting events and related additions to or adjustments of the risk report or forecast report within the management report (for the classification of the outbreak of war as giving rise to non-adjusting events see question 2.1.1.), as well as the necessity of appropriate disclosures in the event of a material uncertainty in connection with the continuation of the business activity (see question 2.1.5.). At the same time, it must be ensured that non-adjusting events occurring after the reporting period are not reflected in the statement of financial position and statement of financial
performance, with the exception of a necessary departure from the going concern assumption (see IDW AuS 203 (Revised), paras. 9 and 11).

The determination of events between the reporting date and the date of the auditor’s report includes the following audit procedures (see IDW AuS 203 (Revised), para. 13 et seq.; ISA [DE] 560, para. 7, A7 et seq.):

- Obtain an understanding of the actions taken by management to ensure full recognition of the effects of the Ukraine war relevant to the annual financial statements and management report;
- Critical reading of minutes of shareholders’ meetings and board/management meetings that may have already taken place since the beginning of the war;
- Critical reading of entity-internal ad hoc reports or similar on the effects of the war on the entity;
- Inquiring of management and, where applicable, those charged with governance about the effects of the war induced events on the entity, e.g., with regard to suppliers, sales markets or investments in the war zone or in Russia/Belarus, as well as with regard to dependencies on the development of the capital and energy markets.

In the case of audits of consolidated financial statements, the group auditor must ensure that for those components whose “reporting packages” are subjected to audit procedures the relevant events after the reporting period in connection with the Ukraine war are identified and assessed within the framework of “subsequent events reporting” (see IDW AuS 203 (Revised), para. 17; IDW AuS 320 (Revised), para. 35). When the reporting package of a component is subject to review by an auditor, see para. 36; with the same in ISA [DE] 600, para. 38 et seq.). For this purpose, it can also be helpful for the group auditor to supplement the audit instructions for component auditors accordingly.

If having to perform further audit procedures has an impact on the timing of the audit, e.g., if new events occur shortly before the planned reporting schedule, the auditor must communicate with those charged with governance on this matter (see question 3.7.1.).

3.3. Evaluation of the going-concern assumption and of future-oriented disclosures

**Question 3.3.1.**

Is a limitation on the scope of the audit to be assumed if the executive directors’ going concern forecast or future-oriented disclosures in the management report are subject to an exceptionally high degree of uncertainty as a result of the current war?

The modification of the opinion in the auditor’s report due to a limitation of the scope of the audit is only considered if the auditor, after exhausting all reasonable possibilities, is not able
to obtain sufficient appropriate audit evidence on the financial reporting information of the audited entity. The significant uncertainties inherent in the forward-looking matters in the financial statements (e.g., liquidity forecast for the purpose of assessing the ability to continue as a going concern) and in the future-oriented disclosures in the management report that are due to the dynamic development and unclear consequences of the war induced events do not, by themselves, establish the existence of a limitation of the scope of the audit. A limitation of the scope of the audit with regard to the evaluation of financial reporting information that is based on future-related facts or with regard to future-oriented information in the management report may exist, for example, if the auditor is unable to obtain sufficient appropriate audit evidence for the purpose of assessing the executive directors’ underlying assumptions (see question 3.3.2).

**Question 3.3.2:**

How can the auditor evaluate the assumptions made by the executive directors?

A forecast includes the executive directors’ assumptions as to the occurrence of future events (e.g., on the (global) economic consequences of the war and the of the imposed sanctions on supply chains, interest rate development and inflation) as well as on the executive directors’ intended actions (e.g., regarding the adjustment of supply chains and the countermeasures to expected price increases for energy purchases).

The executive directors’ assumptions must be sufficiently justified. The auditor will therefore regularly assess whether they are based on current information, whether they are consistent with the assumptions made internally for other purposes (e.g. updated budget planning as a result of the current war induced events) and whether they can be reconciled with any external forecasts of macro-economic development that take account of the war induced events that may already be available at the time the preparation of the financial statements and the management report is completed (date of the auditor's report). In addition, it will be necessary to assess whether, the initial short-term measures and actions already taken by management do not contradict the assumptions made. The auditor's opinion, on the other hand, does not include any statement as to whether the expectations underlying the future-related information or the financial reporting information with reference to the future will materialize.

**Question 3.3.3:**

Due to the high degree of uncertainty regarding the effect of the war induced events on the audited entity's industry, the executive directors do not want to make a going concern forecast under [German] commercial law, as they do not believe that they can
assess the probabilities of conceivable future scenarios with any degree of certainty. How does the auditor deal with this?

The executive directors’ assessment of the company’s ability to continue as a going concern is a prerequisite for the preparation of HGB financial statements and affects questions concerning recognition, measurement (Article 252 para. 1 no. 2 HGB), presentation and/or the notes to the financial statements (see IDW AcS HFA 17). Thus, it is ultimately necessary for the executive directors to make an assessment of the entity’s ability to continue as a going concern when preparing any HGB financial statements, (see IDW AuS 270 (Revised), para. 5).

According to IAS 1.25 et seq. this assessment is explicitly required.

The assessment of the entity’s ability to continue as a going concern always involves a discretionary judgement as to inherently uncertain future effects of events or circumstances by the executive directors at a certain point in time (see also IDW AuS 270 (Revised), para. 8).

The war induced events have increased the uncertainties in many cases. Scenario analyses can address these (see question 2.1.5.). These uncertainties do not justify the waiver of an assessment of the company's ability to continue as a going concern.

Furthermore, a detailed analysis by the executive directors as a basis for assessing the entity's ability to continue as a going concern is of heightened importance, at least in the case of entities that are severely affected by the war, e.g., because they have made significant investments in the war zone or in Russia/Belarus.

If the executive directors are not prepared to make their assessment of the entity's ability to continue as a going concern after being requested to do so by the auditor, the auditor must consider the implications for the auditor’s report (see IDW AuS 270 (Revised), para. 33).

3.4. Reporting on going concern risks (material uncertainties) and facts impairing the entity’s development

Question 3.4.1.: In which cases must the auditor’s report include a reference to a going concern risk (material uncertainty)?

A going concern risk exists if the financial statements can be prepared based on the going concern assumption but, notwithstanding this, there are material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This is the case if the entity may not be able to realize its assets and settle its debts in the ordinary course of business (IDW AuS 270 (Revised), paras. 23, 24 lit. b). If, for example, reorganization measures necessary for the continuation of the company’s activities have not yet been initiated at the time of issuing the auditor's report, but are planned, and if their
realization is uncertain, this is an indication of the existence of a going concern risk (material uncertainty).

If there is a material uncertainty, appropriate information to the users of the financial statements is required in the financial statements and – when relevant – in the management report (see question 2.1.5.). In this case, the auditor must include a corresponding reference in the auditor's report (separate section with the heading “Material uncertainty related going concern”); see Article 322 para. 2 sentences 3 and 4 HGB as well as IDW AuS 270 (Revised), para. 29).

**Question 3.4.2.:**

*Under which conditions must the effects of the current war induced events be qualified as facts impairing development?*

Pursuant to Article 321 para. 1 sentence 3 HGB, the auditor must report in the long-form audit report, in addition to going concern risks, on facts ascertained during the performance of the audit which materially impair the development of the audited entity. Facts impairing development will regularly precede going concern risks. However, they must be facts that cause the entity to be in more than just a strained financial situation. These might relate to facts such as a “break” from central, previously positive trends, a strong decline in incoming orders, a strong increase in procurement prices, the loss of important sales markets or sanctions against significant business partners, which have serious effects on the business activity or profitability, but which do not in the foreseeable future give rise to risks that the entity will cease operations. It will not always be possible to make a clear distinction between facts that impair development and going concern risks and so this must always be assessed on the basis of the circumstances of the individual case.

For the differences in the auditor's reporting on facts impairing development compared to the reporting on going concern risks (including the differences in the presentation in the financial statements), see the IDW's Technical Guidance on the impact of the spread of coronavirus on financial statements and their audit, Part 3, Update No. 5 April 2021 (available at: https://www.idw.de/blob/123132/315e5ad50892775c2fd0a55d8134729e/down-corona-idw-fachhinw-relepruefung-teil3englisch-data.pdf).
3.5. Reporting on Key Audit Matters

Question 3.5.1.: Can the impact of current war induced events be significant in reporting Key Audit Matters (KAM) in the auditor's report?

If IDW AuS 401 “Communication of Key Audit Matters in the Auditor's Report” is applicable to the audit of the financial statements, the current war induced events may give rise to a key audit matter (KAM) to be reported in the auditor's report. IDW AuS 401, para. 9, defines KAMs as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements for the current period. KAM are selected from matters discussed with those charged with governance (see section 3.7.). This includes the "most significant assessed risks of material misstatement", which are selected in accordance with Article 10 para. 2 lit. c of the EU-Audit Regulation and must be described in the auditor's report to support the audit opinion.

In order to determine the KAM, it is first necessary to determine those matters discussed with those charged with governance which required significant auditor attention in performing the audit (see IDW AuS 401, para. 12 et seq.). The determination of these matters and the selection of those matters that were of most significant in the audit may have been influenced by the effects of the Ukraine war. For example, in audits of financial statements prepared as at 31 December 2021, consideration should be given to any identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The assessment of whether the going concern assumption should be applied in preparing the financial statements and whether there is a material uncertainty related to going concern may be subject to a high degree of uncertainty for entities severely affected by the impact of the war induced events. This may also result in a higher risk assessment by the auditor with regard to the appropriateness of maintaining the going concern assumption or the appropriateness of disclosures on material uncertainties, which may indicate the existence of a KAM (see IDW AuS 401, para. 12a).

3.6. Inclusion of an emphasis of matter paragraph relating to the war induced events in the auditor's report

Question 3.6.1.: Under what conditions can an emphasis of matter paragraph be included in the auditor's report? When shall an emphasis of matter paragraph not be included?

IDW AuS 406, para. 10, regulates the requirements for including an emphasis of matter paragraph in the auditor's report. In principle, the auditor must include an emphasis of matter
paragraph in the auditor's report if he considers it necessary to draw the users’ attention to a matter presented or disclosed in the financial statements, the management report or in other material subject to the audit which, in his opinion, is of such importance that they are fundamental to users’ understanding of the subject matter of the audit.

However, an emphasis of matter paragraph shall not be included in the auditor's report if

- because of the specific circumstances, the audit opinion has to be modified pursuant to IDW AuS 405, e.g. because the management of the audited entity has not adequately presented the effects of current events in the financial statements and management report.
- because of the specific circumstances a reference to a material uncertainty related to going concern (going concern risks) is required in accordance with IDW AuS 270 (Revised) (see section 3.4.), or
- the matter has been identified as a key audit matter to be reported in the auditor’s report in accordance with IDW AuS 401 (see section 3.5.).

Furthermore, an emphasis of matter paragraph may not be included if the matter relates to another matter subject to the audit that is only to be reported on within the long-form audit report, e.g. the results of the audit of the early risk detection system pursuant to Article 317 para. 4 HGB.

As to whether, or in which constellations, the inclusion of an emphasis of matter paragraph in connection with the current war induced events can be considered, see the explanations on question 3.6.2.

**Question 3.6.2.:**

**In which cases may it be appropriate to include an emphasis of matter paragraph relating to the current war induced events when auditing financial statements (and, if applicable, the management report) prepared as at 31 December 2021?**

IDW AuS 406, para. A8, gives examples of where the auditor may consider it necessary to include an emphasis of matter paragraph, such as a significant event that occurred between the reporting date and the date of the auditor’s report or a catastrophic event that has had or continues to have a significant effect on the financial position or performance of the entity.

When auditing financial statements and management reports prepared as at 31 December 2021, the auditor may consider an emphasis of matter paragraph in connection with the current war induced events necessary, in particular, if the information provided in this regard in the supplementary report and the presentations in the forecast report and risk report within the management report are of fundamental importance for the understanding of the financial statements and the management report (see also IDW AuS 406 (Revised), Annexes 1 and 2). This applies all the more if the future effects on the net assets, financial position and financial
performance depend heavily on the further course of the war and the reactions thereto and therefore considerable uncertainties remain.

Even when there is a departure from the going concern accounting principle, the auditor may consider it appropriate to draw the attention of the addressees to this fact (see also *IDW AuS 270 (Revised)*, para. A33 and Example 5 of Annex 1 to *IDW AuS 270 (Revised)*).

3.7. Communication with those charged with governance

**Question 3.7.1.**

Which aspects of the effects of the Ukraine war does the auditor need to communicate with those charged with governance?

The auditor's responsibilities to communicate with those charged with governance depend on the significance of the current war induced events for the entity's business. The matters to be communicated may include, for example, the following:

- Information on impacts on the planned scope and timing of the audit, e.g., if new events occur shortly before the planned reporting schedule that have possible impacts on the supplementary report and the presentation in the management report (see *IDW AuS 470 (Revised)*, paras. 20 and A16 et seq.).

- Reporting on significant problems encountered in obtaining audit evidence, especially if the entity operates in a war zone or in Russia/Belarus (see *IDW AuS 470 (Revised)*, paras. 21b and A26); if there is a limitation on the scope of the audit which, according to *IDW AuS 405*, leads to a modification of the audit opinion on the financial statements in the auditor's report (e.g., if the reporting package of a significant component cannot be audited), this must be mentioned (see *IDW AuS 470 (Revised)*, para. 21d).

- Exchange of information on events or circumstances identified as induced by the war that could raise significant doubts about the entity's ability to continue as a going concern (cf. *IDW AuS 270 (Revised)*, para. 34).

- Discussion of those effects of the war induced events which are to be regarded as matters to be treated as key audit matters (KAM) from the point of view of the auditor of a public interest entity within the meaning of Article 316a sentence 2 HGB (see section 3.5.) (see *IDW AuS 401*, para. 20; *IDW AuS 470 (Revised)*, paras. 21d and A28).

- Discussion of the intention to an emphasize separately in the auditor's report a fact presented in the financial statements or management report in connection with the war induced events (see section 3.6.) (see *IDW AuS 406*, para. 15; *IDW AuS 470 (Revised)*, paras. 21d and A28).
3.8. Responsibilities after the issuance of the auditor’s report

Question 3.8.1.: How should the auditor deal with war induced events occurring after the date of the auditor’s report if there is evidence that they have a material effect on the audited entity?

After the date of issuance of the auditor’s report, the auditor is generally not obliged to perform further audit procedures on the audited annual financial statements and, when applicable, the management report (see IDW AuS 203 (Revised), para. 18 et seq.; ISA [DE] 560, paras. 10 and 14). The further developments of the events of the war after the date of the issuance of the auditor’s report do not lead to the conclusion that the financial statements and/or the management report would have been inaccurate at the time of the auditor's report was issued. This also applies in the case of events or transactions of particular importance for the entity, which would have to be reported in the supplementary report and, if applicable, would influence the forecast report and opportunity/risk report within the management report. Therefore, this is not a reason to withdraw the auditor’s report.

However, in the event of circumstances coming to the auditor’s attention, during the period in which to the auditor’s knowledge the financial statements have not yet been approved, which may be of very high significance for the audited entity, it seems appropriate that the auditor would draw to the attention of the corporate bodies responsible for the preparation and approval of the financial statements their respective responsibilities for assessing the need to amend the financial statements (see also question 2.1.7.).

If the corporate bodies decide to amend the financial statements and/or the management report, these must be audited by way of a supplementary audit pursuant to Article 316 para. 3 sentences 1 and 2 HGB to the extent required by the amendments. As a rule, the auditor is not obliged to perform more extensive audit procedures within the scope of the supplementary audit. The situation is different if the effects of war induced events that have occurred since the original date of the auditor's report contain indications that the going concern assumption is no longer justified or that there is a material uncertainty in connection with the going concern assumption. In this case, the auditor must update his evaluation of the going concern assumption, including the assessment of appropriate disclosures in the financial statements when a material uncertainty exists, as part of the supplementary audit (see the minutes of the 234th HFA meeting, FN-IDW 2/2014, p. 198).

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