How should auditors consider tariff disruptions in audits?

On 8 April 2025, the United States announced a broad set of tariffs on imports from various countries, adding new complexities for businesses engaged in international trade.

These developments are anticipated to create a more challenging operating environment for companies in sectors such as textiles and garments, natural resources, semiconductors, pharmaceuticals, trading, banking, and certain service industries. The evolving tariff landscape could also impact the operations and the measurements of assets and liabilities or necessitate further disclosures to inform investors about emerging risks.

Auditors should assess the risks and ensure compliance with applicable auditing standards. Below are key reminders based on reporting periods:

Audits for the financial year ended 31 March 2025

Subsequent Events

If tariffs are imposed after the financial year-end, they would generally be considered non-adjusting events.

Action: Auditors should ensure that management conducts a robust assessment of the impact and provides clear disclosures in the financial statements in accordance with relevant financial reporting frameworks.

Going Concern

As the tariffs are extensive and may be prolonged, they may materially affect a company's financial position and liquidity.

Action: Where such developments cast significant doubt on the entity's ability to continue as a going concern, auditors should critically evaluate management's going concern assumption and consider the implications for the audit opinion.

Audits for the financial year ended 30 June 2025

Inventory Valuation

Tariffs may increase the cost of sales or reduce demand for certain goods, leading to a lower net realisable value for inventories.

Action: Auditors should assess whether a write-down of inventory is necessary.

Onerous Contracts

Fixed-price contracts for export may become loss-making due to increased costs driven by tariffs.

Action: Auditors should ensure that a provision is made for onerous contracts where the costs of fulfilling the contract exceeds the expected economic benefits.

Impairment of Long-Lived Assets

Tariffs that disrupt supply chains or dampen product demand may reduce future cash flows or lead to a suspension of production.

Action: Where indicators of impairment exist, auditors should ensure their clients robustly assess the recoverable amounts of the affected long-lived (non-current) assets.

Other audit considerations

- Revisit their risk assessments in light of geopolitical and economic changes.
- Evaluate the adequacy of management’s forecasts and assumptions.
- Consider the need to involve valuation or industry specialists.
- Ensure disclosures are complete, accurate, and transparent, particularly where the tariff impact is material to the financial statements.