Impacts of COVID-19 on annual report disclosures

A guide for directors, preparers and auditors

A JOINT PUBLICATION FROM:

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CPA AUSTRALIA

Australian Institute of Company Directors

Contents

Joint Foreword

This guidance is a joint publication of the Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia.

COVID-19 has created unique challenges in the operation and oversight of Australian entities. These challenges are particularly acute when it comes to financial reporting and disclosure. Financial reports necessarily contain forward looking statements and are built on a range of assumptions particularly around future cash flows. How are such assumptions to be made at a time of great uncertainty? How should accounting and auditing standards be applied? What should Australian entities disclose in order to provide sufficient information to users of financial reports while not unfairly disadvantaging these entities in the marketplace?

As the professional bodies representing directors, preparers of financial statements, accountants and auditors, we have explored the nature of these challenges and used our collective expertise to prepare this guide. We trust that readers will find it useful as they grapple with the difficult issues they face when disclosing the impact of COVID-19 in their annual reports.

In addition to these resources, the AICD, CA ANZ and CPA Australia maintain websites with additional FAQs, publications and tools to assist individuals, not only navigate their obligations with respect to COVID-19, but more generally. Some are only available to members and some are freely available. We encourage you to look at our websites, or contact us, to find out more.

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ASIC Commentary

The Australian Securities and Investments Commission welcomes the initiative by the Australian Institute of Company Directors, Chartered Accountants Australia and New Zealand and CPA Australia to publish guidance on the disclosure and reporting of COVID-19 impacts on entities.

In the current environment, the quality of financial reports and related disclosures is more important than ever for confident and informed markets and investors.

Entities with businesses adversely affected by the COVID-19 pandemic should focus on reporting of asset values and financial position. Investors expect clear disclosure about the impacts on an entity's businesses, any risks and uncertainties, key assumptions, management strategies and future prospects.

ASIC will monitor disclosure by entities in this period to ensure that disclosure is meaningful and useful, and timely as possible. We realise that entities may face uncertainties about future economic and market conditions, and the future impact on their businesses. Accordingly, directors, management and auditors may need to make difficult judgements on asset values and financial condition.

This guidance will help in making these judgements and is one of a number of publications that directors, managers and auditors should consult when preparing their directors' and financial reports. Entities should also refer to ASIC's recent COVID-19 FAQs on financial reporting and audit, as well as media releases on our website for up to date guidance.

James R. F. Shipton
Chair, Australian Securities and Investments Commission

Introduction

This guide provides a summary of the key considerations that are important when assessing how best to disclose the effects of the COVID-19 pandemic when preparing annual reports for both the 30 June 2020 reporting season and in future periods impacted by COVID-19.

Its aim is to help directors, managers, preparers of financial reports and auditors navigate these considerations and determine how best to disclose necessary information in both the financial report and directors' reports. It seeks to be applicable for listed and unlisted entities, public sector entities, not-for-profits, charities and small and medium-sized entities (SMEs).

Like all such guides, the information contained within it is general in nature. It should be supplemented by guidance provided by government regulators and standard setters, as well as tailored advice from professional advisers.

This guide provides references to relevant publications issued by the Australian Securities and Investments Commission (ASIC), the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB). We strongly urge readers of this guide to study these publications, which in many cases provide more detailed information.

See ASIC **FAQS**: ASIC's COVID-19 implications for financial reporting and audit: Frequently asked questions

The Australian Accounting Standards Board (AASB) and the **Auditing and Assurance Standards Board (AUASB) guidance.**

To be as helpful as possible to the wide variety of entities preparing annual reports, this guide is structured to address the impact of COVID-19-related issues on each key element of the annual report, in the order in which you might expect them to appear in that report:

- Section 1 provides an overview of major risks and issues that should assist entities to identify the nature and extent of the impacts of COVID-19 that are of relevance to the content of annual reports.
- Section 2 sets out some key principles to be borne in mind when approaching disclosure.
- Section 3 discusses how these risks and issues may specifically affect the content of the directors' report, and where relevant, the Operating and Financial Review (OFR).
- Section 4 discusses how COVID-19 impacts the content of the directors' declaration (or equivalent statement) regarding the preparation of the financial statements and the entity's solvency.
- Section 5 discusses how entities may wish to approach their assessment of going concern.
- Section 6 discusses how these risks and issues may impact both the preparation of, and disclosure in, the financial statements and the accompanying notes.
- Section 7 briefly discusses the auditor's report.

Appendices provide:

- some useful questions for directors.
- case studies applying disclosure principles to hypothetical companies.
- detailed consideration of how COVID-19 may impact financial statements.
- discussion of how COVID-19 may specifically affect the consideration of content and wording of the auditor's report.
- summaries of the various reporting relief measures that have been provided by State and national regulators.

Guide to terms used:

Annual report: This term is used to encompass the entire report including directors' report (including the remuneration report and OFR if applicable), directors' declaration, financial statements and auditor's (or reviewer's) report and any Chair or CEO's report. While we have referred to annual reports throughout this guide, similar principles also apply to half-yearly reports produced by listed entities.

COVID-19: the infectious disease caused by a new coronavirus discovered in 2019.

Directors: means those charged with governance, including for example, responsible persons or office holders in the not-for-profit private sector, partners, trustees etc. It is not intended to include those who are paid employees such as managers or executives.

Directors' report: unless specifically stated encompasses all different requirements for directors' reports that may be required for different entities including an Operating and Financial Review and Review of Operations.

Going Concern: an entity is a going concern unless the directors intend to liquidate the entity or to cease trading, or have no realistic alternative but to do so. An entity will be a going concern where the directors intend to continue its operation for the foreseeable future which is at least, but is not limited to, twelve months from the end of the reporting period.

Solvency: an entity is solvent when the entity is able to pay its debts as and when they become due and payable.

CHECKLIST FOR DIRECTORS APPROACHING ANNUAL REPORTING

Steps to be taken by directors	Location in Guide
Meet with management to determine impact of COVID-19	Section 1; Appendix A
Assess solvency	Section 4
Review going concern	Section 5
Review key assumptions. Test reasonableness.	Section 3: Scenario analysis; Section 6: Materiality, Using Estimates; Appendix B
Check due diligence and record keeping	Section 2: Check there is adequate documentation and record keeping
Hold initial discussions with auditor (if necessary)	Section 2: Communicate early and frequently
Review financial statements	Section 6; Appendix A; Appendix C
Check consistency in reports	Section 2: Check consistency throughout the report
Review directors' report/OFR (if applicable)	Section 3
Hold discussions with auditor	Appendix A; Appendix D
Check for events after the Reporting Period	Section 6: Events after the Reporting Period
Finalise reports	Section 4

N.B. This is not necessarily a timeline, for example directors need to review solvency/going concern regularly and in particular when signing directors' declaration.

SECTION 1

Assessing the impact of COVID-19

Directors and managers will need to consider how COVID-19 has impacted their entities when preparing annual reports. Of course, many of these impacts may still be unresolved both at year-end date and date of publication of that report and may continue to impact the entity in the future.

A non-exhaustive list of issues to consider when assessing the impact of COVID-19 includes:

- Liquidity and how liquidity risk was managed
- Reasons for reduced (or increased) demand for goods and services
- Changes to previously announced plans, projects or initiatives and whether targets, aims or goals were missed
- Changes in terms of trade or contract modifications with suppliers or customers that significantly affected or may affect cash flow such as customer payment defaults/bad debts
- Breaches, or the potential for breaches, of debt covenants
- Support provided to customers, employees or other stakeholders
- Changes to remuneration including bonus and incentive arrangements, and share-based payment arrangements
- Sale or disposal of assets that would otherwise not have occurred
- Impacts on financial position including reserves
- Interruptions to supply chains
- Operation of business continuity plans and effect of remote work arrangements on ability to maintain operations and controls, including cyber-security risk
- Effects on a related company such as a parent, subsidiary, associate or joint venture including whether any support or performance guarantees have been given
- Impact of travel restrictions and border closures
- Significant impairment of assets, for example goodwill, Property, Plant and Equipment (PPE) or intangible assets
- For listed entities, whether it has affected ability to pay a dividend including where an entity has previously declared an interim dividend but not yet paid it

Directors and managers should review how they addressed or mitigated any negative effects on the entity. Obviously, users will be looking at steps taken by the entity to manage the impacts of COVID-19, which may also be indicative of how resilient the entity may be to ongoing uncertainties and any future shocks (such as new outbreaks of COVID-19 domestically or internationally).

A non-exhaustive list of possible mitigating factors includes:

- Details of any government subsidies received, such as JobKeeper, or benefits received from schemes, such as the Coronavirus SME Loan Guarantee Scheme or an industry support scheme
- Any new financial arrangements that have been entered into with lenders, such as debt renegotiations or extension of credit lines
- Reductions in operating costs, such as cancelling or deferring capital expenditure
- Capital raisings and the purpose of that raising
- Renegotiation of major contracts, such as rent relief
- Reductions in remuneration (including for senior executives and the board) or staffing levels
- Halting or winding back of production and running down of inventory

Not-for-profit entities

In addition to the way for-profit entities are affected, NFPs might be impacted in unique ways. This includes:

- Inability to hold face to face fundraising events
- Reduced corporate or individual donations because of economic circumstances
- Reduced volunteer activities
- Impact on government funded projects/initiatives

When assessing what the impact may be, entities will need to form a view, not only on some of the issues set out above, but on the different ways in which the COVID-19 pandemic itself could develop, including its transmission and its effect on the community at large.

SECTION 2

Key principles for disclosure and reporting

The financial reporting and business impacts of COVID-19 are as varied as the businesses that face them and have given rise to a number of significant economic challenges for entities operating in many industries and sectors. These impacts are likely to have a pervasive impact on the financial reports, requiring preparers and auditors to challenge underlying assumptions, judgements and disclosures that may not have been considered in detail in the recent past. Consideration of risks and issues (see **Section 1**) to identify the impacts that could affect the financial report, is the beginning of the journey.

The next stage is to consider which impacts need addressing and whether and how these should be recognised, measured and disclosed, in either the financial report or elsewhere in the annual report. Doing this effectively will be critical to ensuring that the financial report clearly communicates the entity's financial performance and position when reporting during periods impacted by COVID-19.

Entities should also be aware that ASIC has released its **focuses for financial reporting under COVID-19 conditions**. This asks entities to focus on asset values, provisions, solvency and going concern assessments, events after year end and disclosures in the financial report and OFR. All of those topics are covered in this guide.

ASIC has indicated it will be reviewing financial reports and adequacy of disclosure and will focus on entities and industries adversely affect by current conditions.

This section first discusses some of the key principles of good reporting and disclosure that will be important for both directors and preparers to address in developing the content of the annual report and for auditors to consider. Subsequent sections will then focus more specifically on the individual components of the annual report as a whole.

Appendix C focuses in more detail on how these principles impact individual income, expense, asset and liability items within the financial statements and notes.

Remember the objective of financial statements

The aim of the financial statements is to provide financial information that is useful to existing and potential investors, lenders, creditors and other users in making decisions about providing resources to the entity. For NFP entities these users will also include members, supporters or donors. If this is to occur in the current environment the financial statements must contain relevant and reliable information.

Check consistency throughout the report

It is important that all aspects of the annual report fit together to tell readers a consistent story about not only the entity's regular activities, but about the way it has been or may be impacted by, and responded to or is responding to, the impacts of COVID-19. The assumptions and judgements made in the measurement and recognition decisions for assets, liabilities, income and expenses and associated disclosures within the financial statements and the notes need to be developed to be clear, informative and presented in a consistent manner. These assumptions and judgements must then be consistent with those used to underpin discussions in the directors' report about likely developments in the entity's operations in future financial periods (to the extent any are made). Where an entity makes assumptions that underpin statements about future years those assumptions should be clearly reflected in the notes to the financial statements.

While auditors do not express an opinion on the directors' report or OFR, they do have responsibilities under paragraphs 16-19 of ASA 720 *the Auditors Responsibilities relating to other information* (paragraphs 16-19). Auditors need to consider whether there are material inconsistencies between the "other information" in the annual report and financial statements on the one hand and the auditor's knowledge obtained through the audit on the other.

> If such inconsistencies exist and are not rectified by management, the auditor is required to include these concerns in the auditor's report.

See Appendix D – Other Information for more details.

Check disclosures are complete

Disclosures in the OFR, directors' report, management commentary or other corporate governance statements cannot replace information that should be in the financial report where it will be subject to audit. In addition, a single generic note on the impact of COVID-19 may not be adequate, given the number of ways COVID-19 can impact the financial report.

See Appendix C for more details.

Check there is adequate documentation and record keeping

Judgements that directors and financial report preparers and auditors will need to make in preparing and approving and/or auditing the annual report or financial report within it, are likely to necessitate evaluation of forward-looking information. Forward-looking information is inherent in assessing asset values, determining recoverable amounts for balances such as receivables, recognising provisions and evaluating whether the entity is a going concern. It is also inherent in making statements in the directors' report on business strategies and prospects for future financial years.

All of these judgements need to be based on available information and, where necessary, reasonable assumptions. Key assumptions should be appropriately challenged by directors and auditors. There may be uncertainties around the impact associated with the COVID-19 pandemic and circumstances may change rapidly. With the benefit of hindsight, others, such as regulators or litigants, may argue that assumptions made by the entity were not well founded. Directors and others may be potentially liable if the entity releases forward-looking statements that ultimately prove to be incorrect.

> Consequently, it is critical for directors, financial report preparers and auditors to thoroughly document the information, estimates and assumptions upon which they based their judgements, including any material uncertainties, and the reasons for those judgements. Proper due diligence should be applied to this process and documented, to ensure there is adequate evidence to indicate that judgements made were based on reasonable and reliable information, estimates and assumptions. This will assist the entity to effectively respond to any future questions or challenges from regulators, shareholders, lenders or other stakeholders. It will also assist the entity's auditor in understanding the basis for such judgements.

See ASIC **FAQ 9**: Covid-19 implications for financial reporting and audit

Effective internal communication

Directors, preparers of financial reports and auditors are all potentially facing novel challenges in their involvement with preparing and opining on annual reports during COVID-19. The changes not only involve difficult judgements but may also involve operational issues associated with socially distanced office arrangements and remote working. Early and frequent communications between all parties will assist in managing some of these inherent difficulties. This includes:

- Management informing directors as early as possible about judgements and assumptions in financial reports and forecasts as well as any governance issues affecting reporting processes.
- Good communication at the board level, including between the audit committee (where one exists) and other directors.
- Good communication between the board or, if applicable, audit committee and the auditor, including advising auditors early where challenging decisions are being made to appraise them of the underlying assumptions and judgements.

Good communication will also be important in ensuring the entity's external reporting obligations are met in a timely and appropriate manner and that the auditors have sufficient time to consider the nature and content of the reporting obligations they have and how these have been addressed.

More guidance on this issue is included in Appendix A.

SECTION 3

Directors' report and the Operating and Financial Review

The directors' report is the vehicle for the board to tell their own story about the impact of COVID-19 on their entity and their strategic response. Many entities, particularly smaller listed or unlisted companies, may previously have provided less comprehensive reports that changed little from year to year. Where the entity has been impacted by COVID-19, the board may need to provide more detailed narrative than on previous occasions.

How an entity chooses to present the information is a matter of preference and may depend on the significance of the impacts of COVID-19. It could form part of the CEO's and/or Chair's statement, part of risk management disclosures or it could form its own section of the directors' report. Where the content is required to meet statutory directors' report requirements, it must be included in the directors' report itself unless cross-referenced in accordance with any applicable cross-referencing relief.

This Section has been prepared on the basis that the entity preparing it is both a going concern and solvent.

How much information do I need to disclose?

The directors' report should disclose sufficient information so that any significant changes throughout the year or likely developments in operations in the future are clear to users. Where the entity has shareholders, the report should contain sufficient information to allow shareholders to make informed judgements, including on the entity's future prospects. The amount of disclosure is always a fine judgement that only the board can make based on their own assessment, informed by management's advice. For some entities, it may not be possible to make detailed statements about likely developments or prospects due to the uncertainty created by COVID-19, in which case this should be explained in the report. Directors who do not believe it is necessary for their directors' report to make COVID-19 related disclosures might consider briefly setting out why they have formed that view.

Whenever making disclosures in the directors' report, particularly any forward-looking statements, consideration must be given to whether it is of benefit to users, whether the information is accurate, and whether it is based on demonstrably reasonable grounds. Any forward-looking information that is not based on reasonable grounds is potentially misleading and should not be disclosed.

By the same token, consideration should be given to disclosure that may mislead by omission. Directors of listed entities should also ensure that the OFR is consistent with any information disclosed in continuous disclosure announcements.

Where there has been a change in circumstances between balance date and the release of the annual report, directors will need to consider how much post-balance date information they need to disclose.

See ASIC **FAQ 4**: What disclosures should be made in the OFR?

Legal requirements

Sections 299 to 300 of the Corporations Act set out the requirements for directors' reports and the OFR.

Directors of listed entities must be mindful of ASIC's regulatory guidance **Regulatory Guide 247** *Effective disclosure in an operating and financial review* (RG 247). This guide also contains information for unlisted entities reporting on their review of operations.

Disclosing effect on financial year

When considering how to disclose the impact of COVID-19 during the financial year, directors may find it helpful to consult the list of risks and issues set out in Section 1 (see pages 9 and 10).

Appendix B includes a case study setting out how a hypothetical company might disclose the effects of COVID-19 in the financial year. It helps illustrate some of the factors set out in Section 1.

Separating out COVID-19 effect in profit measures

Where there has been a financial effect on the entity, care must be taken about trying to split out profit or loss impacts from COVID-19. While ASIC considers disclosure of the impact of COVID-19 is important to users of financial reports, ASIC has specifically discouraged entities from presenting information in this way on the basis that it could be misleading.

See **ASIC FAQ 5 and FAQ 6**. FAQ 5 states that a profit that excludes the impact of COVID-19 will be hypothetical and potentially misleading.

Where there is good quality data available that enables the segregation of information into time periods (e.g. nine months pre-COVID-19, three months during COVID-19 restrictions or a monthly profit and loss measure) then the entity might choose to present it accordingly.

As always, the use of non-IFRS profit measures and underlying earnings needs to be carefully considered and take account of ASIC's **Regulatory Guide 230.** Any non-IFRS measure should be reconcilable to the corresponding IFRS measure, calculated consistently from period to period, and unbiased, so that it is not used to remove "bad news".

Disclosing impact on future operations, prospects and business strategies

COVID-19 creates significant uncertainty and it may be that an entity feels that it is unable to make forward-looking statements about likely developments or future prospects with the requisite degree of confidence. It might be reasonable to simply acknowledge and disclose uncertainty about the future. Listed companies should also be mindful of the implications of making forward-looking statements on their continuous disclosure obligations.

Where an entity chooses to make disclosures, the matters set out in Section 1 could provide the basis of those disclosures and narrative about likely developments in operations, business strategies and prospects. Users are most likely to be interested in an entity's projected cash flow and potential mitigation steps should difficulties arise. Given the possibility for unusual and even erratic economic swings in 2020/21 an entity may feel it necessary to set out in narrative form how it hopes to deal with changes in demand for its products or services.

An entity is already expected to clearly articulate its business model in the directors' report. It may be that an entity's business model is likely to be significantly impacted by COVID-19 in the future or only under certain scenarios. An entity could consider setting out COVID-19 uncertainties and sensitivities and what adaptations it has made to its business model, noting that disclosure does not have to include information likely to give third parties a commercial advantage. Given the observed effect to COVID-19 on cash flows, entities may wish to focus on liquidity management, cash reserves and potential sources of credit. Clearly, business models evolve over time and any change could be situated in the context of that evolution and necessary investment.

See Case Study 1 on considerations an entity might apply when disclosing impact on future operations, prospects and business strategies.

Disclosure of material business risks

If an entity has assessed that it is exposed to material business risks as a result of COVID-19 the directors should consider setting out those risks in the directors' report, as well as any attempts that have been made to mitigate them (this disclosure is expected by ASIC to be included in an OFR).
A non-exhaustive list of business risks that an entity may wish to consider are set out below:

List 1

- Ongoing or intermittent government-imposed shutdowns of sectors of the economy, (such as hospitality, leisure and tourism) impacting demand for goods or services
- COVID-19-related reduction in demand for goods and services
- Travel restrictions and border closures by either Australian or foreign governments in relevant jurisdictions impacting supply chains, exports or customers
- Increases in the rate of COVID-19 infection within Australia and/or other relevant jurisdictions
- Financial impacts resulting from breaches of bank covenants, withdrawal of funding or inability to increase borrowings or raise capital
- Lack of internal controls in remote working environment including potentially increased exposure to cyber security risks
- Pandemic outbreak among employees, in particular key management personnel
- The withdrawal of government support
- Political instability in other countries
- Foreign exchange fluctuations

Case Study 1 includes a discussion of how a hypothetical company might disclose material business risks

Scenario analysis, assumptions and estimation uncertainty

Any statement about future events necessarily involves some assumptions about the future and some forecasting. As already stated, it is reasonable (and may well be necessary) in the context of COVID-19, to acknowledge uncertainty in forward-looking statements. Companies may undertake scenario modelling around COVID-19 and then subject these scenarios to sensitivity analysis. A list of scenarios that an entity may wish to test include those set out in List 1 (p. 17). Scenario testing will help directors and managers make judgements, assumptions and estimates about the potential effect of COVID-19 on the entity. Much of that might appear in the financial report rather than in the directors' report.

The directors' report should include some narrative information about the assumptions that underlie the financial report and disclosed business strategy where this information is needed to understand them. If scenario testing was robust enough to support external disclosure (rather than simply a stress-testing exercise), the report might disclose the outcomes of some of those scenarios with probability weightings included. The extent of disclosure of this information depends on its probability, the effect of the scenario on the business, its importance to future cash flows and its sensitivity. The financial report will also contain data around assumptions, including in the notes where they are required to disclose significant sources of estimation uncertainty. The directors' report is a vehicle to provide the narrative that sets out how estimates were arrived at, even if there is uncertainty.

The assumptions used should be made on reasonable grounds and be realistic, to the extent possible given the level of uncertainty. Estimates supported only by hypothetical assumptions, statements not supported by verifiable reasons, or those made solely on "the best estimate of the directors" are likely insufficient. Where possible, assumptions should be backed up by evidence such as independent expert reports and locked in future revenue or expenses. There may be a range of scenarios considered and assumptions applied that are disclosed.

Case Study 1 includes discussion of a hypothetical company undertaking scenario modeling around future demand, geopolitical risk, its liquidity and possible mitigation strategies.

Cases studies 2 and 3 discuss scenario analysis around going concern including key assumptions about future revenue.

Going concern and Solvency

Where issues arise over going concern and/or solvency (for example where there is a material uncertainty around going concern), this should be disclosed in the financial report and directors' report with narrative provided about how the entity intends to mitigate that uncertainty. It may be sufficient for the directors to point to the note in the financial report addressing going concern.

For a further discussion of this issue refer to Sections 4 and 5.

SECTION 4

Directors' declarations

Many annual financial reports must contain a directors' declaration which is subject to audit. It requires the making of statements about the basis of preparation of the financial statements and about the solvency of the entity. The impact of COVID–19 means that the making of these statements may require more careful consideration than has been necessary in previous years.

Declaration concerning the content of the financial statements

In approving the financial report, directors generally have to make statements about whether the financial statements comply with accounting standards and provide a true and fair view.

Legal requirements

Sections 295(4), 296 and 297 of the Corporations Act set out obligations.

Sections 60.10(3) and 60.15 of the Australian Charities and Not-for-profits Commission Regulation 2013 (ACNC legislation) set out similar requirements for NFPs.

It is possible that the financial report will be subject to a greater degree of change than in previous years as new accounting policies may need to be introduced and existing accounting policies reviewed, estimates and uncertainties identified and determined, new disclosures developed and considerations about going concern addressed.

All these matters are discussed further in **Sections 5**, **6** and **7**.

In order to make these declarations under such challenging circumstances, it is essential that directors bring their own knowledge of the entity's situation to bear and do not simply rely on management to conclude that the financial report complies with relevant legislation and accounting standards and provide a true and fair view. If the board has an audit committee it is also not enough to delegate this responsibility to that committee. If in doubt about anything in the financial report, the directors should ask questions. Good governance practice suggests that boards should have in place a policy to enable directors to seek independent professional advice to assist the directors in discharging their duties.

The directors' declaration is audited and so the directors' views on these matters may also need to be discussed with the auditor before the annual report is finalised.

Solvency Declaration

The Corporations Act and ACNC legislation requires directors to pass a resolution that there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable.

ASIC's guide for assistance: **Regulatory Guide 22 Directors' statement as to solvency.**

Australian Charities and Not-for-profits Commission (ACNC) regulatory position on compliance with governance standards during COVID-19

> Factors arising from COVID-19 that directors may consider when assessing whether they have reasonable grounds for making a solvency declaration are set out in **ASIC's FAQ 11**. These include impact on short-term operating cash flows and any debt refinancing, borrowing covenants, lender forbearances and liquidity support. **ASIC's FAQ 11** sets out advice on what to do if there is material uncertainty around solvency and when a qualified solvency declaration may be passed.

As part of a **package of announcements responding to COVID-19**, the Government made the decision to temporarily suspend the duty of a director to prevent insolvent trading with respect to any debts incurred in the ordinary course of the entity's business. This relieves the director of personal liability that would otherwise be associated with the insolvent trading, unless the directors are dishonest or fraudulent, in which case they may still be subject to criminal penalties. However, this does not waive the obligation to pay debts in due course and all other existing duties continue to apply. Directors' personal liability for trading while insolvent was suspended for six months, that is until 25 September 2020, unless the Government decides to extend the suspension by regulation. There is no indication, as at the date of publication of this guide, that they will do so.

Similar relief was provided by the ACNC with an additional requirement that a charity which is trading while insolvent is still required to notify its members and the ACNC of that occurrence.

The existing insolvency safe-harbour remains in place. This allows a director, after beginning to suspect a entity may become or be insolvent, to start to develop one or more courses of action that are reasonably likely to lead to a better outcome for the entity than the immediate appointment of an administrator or liquidator. Members of the AICD can access a director tool to help them navigate the insolvency safe harbour here.

ASIC has stated that an entity may be insolvent yet remain a going concern. It seems unlikely that this would occur in many cases – one example might be when a small business entity in hibernation believes it might be able to trade through insolvency and remain a going concern.

Notwithstanding the temporary suspension of the personal liability for debts incurred where directors and managers believe an entity may be insolvent they should urgently seek the advice of suitably qualified independent experts. Further information is provided in: Helping their clients with companies in financial distress published by the Australian Restructuring Insolvency and Turnaround Association with the support of CA ANZ and CPA Australia.

Other information from the AICD can be found here.

The **AASB/AUASB guidance** provides additional guidance on the interaction between solvency declarations and assessment of going concern.

Auditors have important responsibilities in respect to obtaining audit evidence around solvency in order to conclude on the Director's solvency declaration. See ASIC **FAQ 10** *Does the temporary relief for directors where a company trades while insolvent affect requirements for financial reports, directors' declarations and directors' reports?* and **FAQ 12** *What are the auditor's obligations on assessing solvency and reporting suspected insolvent trading to ASIC?*

SECTION 5

Assessment of Going Concern

Directors, managers and auditors making judgements around solvency will need to make a separate assessment of going concern. While these are similar concepts, they involve different considerations. Financial statements are required to be prepared on a going concern basis, unless management intends that the entity will be liquidated, cease trading or have no realistic alternative other than these courses of action. This assessment (required by AASB 101 paragraph 25) will need to be made by directors and then assessed by the auditor.

The going concern assessment should initially be made at balance date and take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period (AASB 101 paragraph 26). However, it should be updated so that all relevant information has been considered before the financial statements are signed off on a going concern basis.

The preparation of the financial statements on a going concern basis is appropriate whenever the directors conclude that the entity is a going concern, even if there is material uncertainty related to this assessment, as long as there is adequate disclosure of this fact. Disclosure of judgements made may be required even when the entity has concluded there is no material uncertainty around going concern (AASB 101 paragraph 122).

> When assessing whether an entity is a going concern, directors can consider the indicators set out in Section 1 (p.9 and 10) and in List 1 (p. 17) of this guide. They can also carry out scenario analysis to determine under which future scenarios the entity may no longer be a going concern and the probability of that occurring.

See Case Study 2 and 3 which provide examples of some considerations when addressing disclosures around the going concern assessment.

The Australian Accounting Standards Board (AASB), in conjunction with the Australian Auditing and Assurance Standards Board (AUASB), has issued guidance on The Impact of COVID-19 on **Going Concern and Related Assessments** *which provides directors, management and auditors further assistance. It should be consulted wherever an entity has an issue around going concern.*

If the directors conclude that the entity is not a going concern, then the financial statements should not be prepared on a going concern basis. Where this approach is taken, the financial statements will need to disclose this fact, and the reasons why the entity is not regarded as a going concern (AASB 101 paragraph 25). It must also then disclose the alternative basis on which the financial statements have been prepared.

The accounting standards do not prescribe an alternative basis in this situation and there are differing views on whether such financial statements would still need to comply with the broad principles of the Conceptual Framework for Financial Reporting where an entity must still prepare financial statements that comply with accounting standards as required under the Corporations Act. It is therefore important for entities to clearly explain how the alternative basis used has affected the accounting policies, recognition, measurement and presentation of the amounts in the financial statements. It would also be beneficial for the preparers and directors to discuss the basis of preparation with their auditors.

Further information on auditor reporting considerations in relation to going concern is set out in Appendix D of this Guidance.

SECTION 6

Preparing the Financial Report

Financial reports are prepared based on a number of fundamental principles and using a variety of assumptions. COVID-19 may impact the application of these fundamental principles and assumptions in ways that may never have been considered by the entity in the past. To help navigate this new environment, some of the more common challenges that preparers may face when producing the financial report during the COVID-19 pandemic are set out below.

Assessment of Going Concern

Financial statements are usually prepared on the basis that the entity is a going concern.

For more information see Section 5 of this guide and the joint AASB/ AUASB publication **The Impact of COVID 19 on Going Concern and related assessments.**

Materiality

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity (the definition of materiality as per AASB 101, *Presentation of financial statements* (AASB 101) paragraph 7).

The principle of "materiality" provides a basis for assessing what information is and is not useful to investors and other primary users. It is not just a quantitative concept but can also be applied to qualitative information more generally. While its application is inherently judgemental, **AASB Practice Statement 2 *Making materiality judgements*** explains the concept in more detail, setting out a four-step process that will help ensure key information is disclosed and not lost in unnecessary detail.

The AASB and AUASB have published a Joint FAQ **The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations** which discusses materiality assessments in the wake of COVID-19. It also refers to a further joint publication **Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2** which discusses the application of emerging risks more generally.

In developing disclosures, the attribution of every change in business circumstances to COVID-19 may be inappropriate. Accounting standards (particularly *AASB 101* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108) provide clear guidance on the appropriate structure and formats of financial statements and attempts to add to/ depart from these requirements without clear justification for, and evidence of, a need to do so could be misleading.

See Section 3 Separating out COVID-19 effect in profit measures for more detail.

Using estimates

Many elements of the financial statements have always necessarily involved the use of estimates. As noted in paragraph 33 of AASB 108 the use of estimates does not undermine the reliability of the financial statements, provided these estimates are reasonable. While making reasonable estimates in the current environment is more challenging, providing meaningful disclosure on the key sources of the uncertainty and the assumptions made in reaching the estimates (as required by paragraph 25 of AASB 101) will provide investors with the transparency they need to assess the decisions taken.

ASIC's **FAQ 9** *How do directors minimise possible liability in connection with accounting estimates and forward-looking information?* on COVID-19 related reporting referred earlier, makes it clear that no one expects prediction, or disclosure, of the unpredictable. This is supported by guidance issued by the ASX on 31 March 2020 on compliance with listing rules around COVID-19: **Listed@ASX Compliance Update.**

Significant accounting policies

Dealing with the accounting consequences of COVID-19 may require an entity to review the application of some of its usual accounting policies and practices or implement new ones. For example, government grants may not have been a feature of the entity's revenue in the past but may now be significant enough for their accounting treatment to be included as a 'significant accounting policy' if the financial statements are to be clearly understood. Therefore, the list of significant accounting policies being disclosed as required by paragraph 117 of AASB 101 needs to be reviewed for completeness and relevance in the current environment. In addition to ensuring all material accounting policies are disclosed, it will be necessary to ensure that the content of the disclosures about each is updated for:

- any significant changes to the application of these policies (AASB 108 paragraph 29);
- any significant new judgements that have been made in applying these policies (AASB 101 paragraph 122);
- any significant sources of estimation uncertainty, especially around the future values of assets and liabilities (AASB 101 paragraph 125); and
- if the entity is facing liquidity or going concern issues, disclosures around the objectives, policies and processes for managing capital (AASB 101 paragraph 134).

AASB 108 requires accounting policies to be applied consistently between years and changes can only be made in the circumstances specified in paragraph 14 of AASB 108. Subsequent paragraphs of this standard provide guidance on how to account for and disclose permitted changes and also provide additional guidance on distinguishing between changes in accounting policies and changes in accounting estimates.

Events after the Reporting Period

While the financial statements are prepared as at a specific balance sheet date, AASB 110 *Events after the Reporting Period* (AASB 110) requires that the entity give consideration to events that occur between the end of the reporting period and the date when the financial statements are authorised for issue. These events are referred to as "Events after the reporting period" and are further subdivided by AASB 110 paragraph 3 into "adjusting events" or "non-adjusting events".

Material adjusting events (AASB 110 paragraph 8) will need to be taken into account in determining the amounts included in the financial statements for the period. This is because they shed light on conditions that existed at balance date. Material non-adjusting events (AASB 110 paragraph 10) provide new information about conditions being faced by the entity that did not exist at the balance date and so are only required to be disclosed in the notes to the financial statements. For example, the sale of inventory after year end could provide information about the net realisable value of inventory at year end but the destruction of that inventory in a storm after year end does not impact the inventory's value at balance date.

The assessment process for events after the reporting period will require consideration of the specific impact on the entity, its balance date and the date of signing of its financial statements. Events after the reporting period, whether adjusting or non-adjusting, may also require inclusion in the entity's consideration of its ability to continue as a going concern **(See section 5).**

Uncertain trading conditions are not new and so many entities may already be familiar with identifying some of the more common events after the reporting period such as the impact of fluctuating stock markets on quoted investments or the identification of potentially defaulting debtors. However, the constantly changing conditions and the degree of uncertainty associated with COVID-19 present some specifically COVID-19 related factors that also need consideration including:

- the cessation or change to any government stimulus packages and when these are announced or applied; and
- the cessation of the safe harbour relief from insolvent trading **(See section 4).**

For detailed information on the financial statements see Appendix C.

SECTION 7

Auditors Report Paragraphs and Modifications

Directors and preparers are not the only ones facing unique reporting challenges during this pandemic. The complexity of the judgements and disclosures faced by them need to be audited to enable the auditor to express their opinion on the financial report.

In the same way that many basic elements of the financial report may need a fundamental review, it is likely that the auditor will need to carefully reconsider risk, materiality and internal controls relative to previous years in planning and performing procedures to ensure that sufficient appropriate audit evidence is obtained on each key element of the financial report.

The auditor may need to carefully consider the wording that is included in the auditor's report in order to clearly convey both the nature of the opinion and material issues that have impacted on the audit and the financial report, including how entities have addressed any material uncertainties.

Many entities will have been accustomed to a standard unmodified auditor's report, but the conditions created by COVID–19 may require the report to include paragraphs to bring certain matters to users' attention or for the opinion to be modified, which may contrast to prior years. However, not all additional paragraphs and modifications to the auditor's report create red flags and their significance varies widely.

COVID-19 may impact or give rise to the following communications in the auditor's report:

Auditor's report paragraphs not impacting the opinion, which are highlighting information in the financial report or annual report:

- Key Audit Matters
- Material Uncertainty Related to Going Concern
- Emphasis of Matter
- Other Information

Modified auditors' opinions, which may raise red flags regarding the information in the financial report:

- Qualified opinion
- Adverse opinion
- Disclaimer of opinion

For further information on understanding this communication in the auditor's report and how it may be impacted by COVID-19 see Appendix D.

APPENDIX A

Questions for directors preparing reports

The following is a list of questions directors may wish to ask themselves or put to management as they prepare their directors' and financial reports. They may also be useful for managers and auditors.

Directors might also wish to consider the different ways in which the pandemic itself could develop. The answer to some of the forward-looking elements of the questions below will look different depending how COVID-19 develops, its transmission and its effect on the community at large.

Questions to consider when assessing the impact of COVID-19

This list is not intended to be exhaustive. It is based on a publication released by the U.S. Securities and Exchange Commission in March 2020.

1. In light of changing trends and the overall economic outlook, how do you expect COVID-19 to impact your future operating results and near-and-long-term financial results?

2. Do you expect that COVID-19 will impact future operations differently than how it affected the current period?

3. How has COVID-19 impacted your capital and financial resources, including your overall liquidity position and outlook?

4. Does COVID-19 increase the risk of you breaching any debt covenants? What is the likelihood of that occurring? Have you undertaken any discussions with your lender about what would occur in those circumstances?

5. How do you expect COVID-19 to affect assets on your balance sheet?

6. What assumptions have you built into your assessment of impairment, in particular of non-current assets, intangibles, and goodwill? Will there be significant changes in judgements in determining the fair value of assets?

7. Have there been increases in allowances for credit losses, restructuring charges, other expenses, or changes in accounting judgements that have had or are reasonably likely to have a material impact on your financial statements?

8. Have COVID-19-related circumstances such as remote work arrangements adversely affected your ability to maintain operations? What if they were to recur or last for a lengthy period?

9. Have you experienced challenges in implementing your business continuity plans or do you foresee requiring material expenditures to do so? Do you face any material resource constraints in implementing these plans?

10. Do you expect COVID-19 to materially affect the demand for your products or services?

11. Do you anticipate a material adverse impact of COVID-19 on your supply chain or the methods used to distribute your products or services? Do you expect the anticipated impact of COVID-19 to materially change the relationship between costs and revenues?

12. Will your operations be materially impacted by any constraints or other impacts on your human capital resources and productivity?

13. Are travel restrictions and border closures expected to have a material impact on your ability to operate and achieve your business goals? Is your entity exposed to material effect of COVID-19 in an overseas jurisdiction where you operate a business?

14. Has COVID-19 had a significant material effect on a related business entity (e.g. a parent, subsidiary, joint venture) and what will the effect be on your entity's financial and operational circumstances?

15. Have you considered the possibility of contract modifications from customers and its effects on revenue?

16. How reliant are you on continuing government support for your operation e.g. Jobkeeper? How vulnerable are you to sudden changes in government policy such as withdrawing that support?

17. Have you undertaken any scenario analysis for different possibilities facing your business? What does this tell you about your assumptions around going concern?

Assessing the impact of COVID-19: Specific questions for NFPs

1. How has your volunteer base been affected? Are they in a particularly vulnerable cohort that might be impacted by social distancing? Does this mean you may have to scale back activities?

2. Has your ability to conduct your traditional fundraising been affected? Do you anticipate you will still be able to hold fundraising events?

3. Are you reliant on government or corporate grants or sponsorship that may no longer be forth-coming in a time of economic downturn?

4. Will clients, patients or recipients of assistance require additional support through a time of economic downturn? What does that mean for your current operational plan?

Disclosing the impact of COVID-19: Questions to management

The following are a list of questions that directors may want to focus on with management when trying to assess whether they are disclosing the effects of COVID-19 properly in the financial reports. This is a non-exhaustive list and does not cover all the questions directors may wish to ask of management when approving the financial report.

1. What forward looking statements have been made in the annual report and what is the basis for them? How can you demonstrate that you have reasonable grounds for the statements?

2. What are the key uncertainties arising from COVID-19 and how have they been addressed and reflected in disclosures?

3. What are the key accounting standards and accounting policy choices that affect the financial statements and how does management ascertain compliance with these standards?

4. Have external or internal auditors raised any issues regarding non-compliance with accounting standards?

5. Has management provided the board with a financial analysis showing the main reasons for the change in this year's result when compared with last year?

6. How have major events and transactions been reported in the financial report? Is separate disclosure required? (N.B. Directors should ensure that the proposed disclosures are consistent with the director's understanding of those events and transactions).

7. How does the cash flow generated compare to the profits?

8. Does the company have sufficient capital for growth?

9. Where there is an internal audit function - which operations have been audited by internal audit and did any operations receive an unsatisfactory rating? If so, what action has been taken to rectify the problem?

10. How has the fair value of investments been assessed?

11. Have non-current assets been measured at cost or fair value?

12. What steps have been taken to confirm that the book values of receivables and loans are recoverable in full?

13. How has it been determined that all creditors have been included in the financial statements?

14. How does management determine that there has been no breach of any terms and conditions imposed by borrowing arrangements?

Finalising the report: Questions to auditors

The following is a non-exhaustive list of questions that directors may want to focus on when holding discussions with auditors.

1. With whom has the external auditor met to discuss matters arising during the audit and is it appropriate for the full board to also meet with the auditor?

2. Has the external auditor identified any significant deficiencies in internal controls during the audit? What action is required by the board?

3. Has the external auditor communicated any observations arising during the audit to management that are significant and relevant to the board's responsibility to oversee the financial reporting process?

4. What is the auditor's view of the solvency of the entity and whether it is a going concern or whether a material uncertainty related to going concern exists?

5. Does the external auditor intend to issue a 'clean' opinion on the statutory financial report or is the auditor proposing a modified audit opinion?

6. Has the external auditor confirmed that he/she has enjoyed full cooperation and frank discussions with management?

7. Does the auditor have any relevant lessons learned from other engagements that may be useful for the company to consider?

The AICD provides tools for directors that serve as a practical guidance to help navigate their duties. The list extracted here includes some of those questions.

The full list of tools is available **here**. Please note some of those tools are only accessible to members of the AICD.

APPENDIX B

Case Studies

CASE STUDY 1
DISCLOSURE IN THE DIRECTORS' REPORT

Case Study 1 has been designed to help directors and management consider what they might disclose in a directors' report or OFR. This case study is of a hypothetical ASX listed company reporting on the effect of COVID-19 from the period 1 July 2019 to 30 June 2020. It is based on the case study used by ASIC in Regulatory Guide 247 *Effective disclosure in an operating and financial review*. The first two paragraphs of the background facts of Case Study 1 are reproduced from that Regulatory Guide.

Background

The Company is a manufacturer of technology equipment, producing two types of widgets—Models A and B. Its manufacturing operations are based entirely in Australia, but it distributes its products both in Australia (5%) and overseas (95%) – mostly in China.

The Company is a key participant in its market, holding a market share of approximately 30%. With a very diverse customer base, the company does not have any dependencies on key customers.

The decision by the Chinese government to lockdown many towns and cities in response to COVID-19 significantly reduced demand, and sales in China fell by 47% from 1 January 2020 to 30 June 2020 (having increased by 9% from 1 July 2019 to 31 December 2019). This decline in sales underperformed the target of a 12% growth in the Chinese market.

Analysts report similar falls in peer companies. Australian sales were less affected, falling by 9% over the period 1 January 2020 to 30 June 2020 (having decreased by 5% from 1 July 2019 to 31 December 2019). This underperformed the target of a 2% growth in that market.

Inventory has decreased compared to last year as the company took steps to reduce production in line with falling demand from March 2020.

A cost reduction program to preserve cash was implemented in April. Savings have been made by cancelling overtime, inventory reduction, and a freeze on hiring. This is improving the company's cash position. Overall FTE has reduced from 765.4 to 703.2 over the course of the year. Wages have reduced by $12,765,324 mainly as a result of cancelling overtime and by reducing the employment of casuals in the manufacturing part of the business.

The senior management team voluntarily reduced their wages by 20 per cent from 1 April 2020 and the Board reduced their fees by 20 per cent as well. No incentive payments will be made this year.

The Company has budgeted for a 7 per cent reduction in operating costs compared to the 2019-20 financial year.

One-off redundancy costs of $2,025,000 were also incurred. This was largely due to reductions in sales and marketing, logistics and administration staff as part of the cost reduction exercise.

The Company successfully applied for the Australian Government's Jobkeeper payment and was assessed as eligible on 12 April 2020 with payment backdated to 1 March 2020. The Jobkeeper payment applied to all of the Company's employees within Australia and payment of $25,234,824 was made.

The Company's cash position has reduced compared to the end of last year. As at 30 June 2020 the Company has $15.3 million in cash compared to $23.4 million at 30 June 2019. The Company was able to increase its revolving credit facility with its lender from $100m to $200m.

Management are now confident they have access to enough funding to meet any liquidity challenges that might arise in the 2020/21 financial year, including another severe COVID-19 related contraction in demand.

The directors have reasonable grounds for a view that the Company is solvent and a going concern.

The Company's operations were largely unaffected by lockdown measures in Australia and successfully implemented its business continuity plans. Production was able to continue at all facilities. No employees were reported to be infected with COVID-19.

The Company expects the market for widgets to reduce in Q1 of financial year 2020/21, flatten in Q2 and then recover in Q3 and Q4 of 2020/21. They have based this assessment on the views of expert economic commentators, market analysis, disclosure by peer companies and discussions with customers. The increase in demand in Q3 and Q4 is anticipated to range between modest and high growth.

There is a great deal of uncertainty attached to these estimates because of all the unknowns associated with COVID-19. Specific COVID-19 related risks identified by the Company include geo-political risks leading to a ban on imports from Australia in the Chinese market and COVID-19 related reduction in demand.

Disclosing impact for the financial year

This is the backwards looking part of the directors' report where the company is creating a narrative about the past year. In this example we focus on how that report might deal with COVID-19.

The directors might consider disclosing the following information in this part of their report:

- reduction in demand and sales in China and Australia
- status of inventory
- cash position and arrangements with lender
- cost reduction program including details of reductions in staffing and wages
- changes to remuneration of senior executive and Board
- one-off redundancy costs
- details of government assistance received such as JobKeeper
- effect of shutdown on business continuity plan and infection levels among employees.

If the Company was able to accurately separate profit and loss by a time period (in this case perhaps from 1 July to 31 December and then from 1 January to 30 June) then this might be a way to demonstrate the effect of COVID-19 on profit.

The Company could choose to report on how it underperformed its targets however it would need to consider whether it was necessary and whether it was information likely to give third parties a commercial advantage.

The statements on liquidity and the budgeted forecasts on reduced operating costs are both forward-looking statements. The Company would need to carefully consider whether the information was necessary for users (see the relevant legal tests set out in the Guide), accurate and based on demonstrably reasonable grounds. A cautious entity may choose not to disclose those statements.

Disclosing impact on future operations, prospects and business strategies

As already stated, the Company would need to carefully consider any disclosures in relation to all forward-looking statements. Any disclosures about future operations, prospects or business strategies would be a matter for the discretion of the directors having taken into account all the factors already discussed and noting continuous disclosure requirements if they are a listed entity.

The Company might disclose its projections for market growth and should include the basis and evidence it is using for its assumptions. They should clearly acknowledge the uncertainty around those assumptions.

If the Company has strategies to deal with changes to its assumptions (either more negative or positive than assumed) then they might also disclose them here. For example, this might include the ability to rapidly increase/decrease staffing levels, increase/decrease manufacturing on production lines or bring forward/defer capital expenditure. Some of this might also be disclosed in the risk section of the report.

Disclosure of material business risks

The Company might consider disclosing two COVID-19 related risks:

- Geopolitical risks leading to a ban on imports from Australia. The dependence on a single market is a clear risk. The probability of that occurring, based on expert views, as well as steps to mitigate (e.g. expanding sales into other economies) might also be disclosed.
- COVID-19 related reduction in demand. This may already have been disclosed and users will probably expect some narrative about how the Company might deal with further reductions e.g. reduction in production, staffing and operating costs based on measures already successfully implemented.

Scenario analysis, assumptions and estimation uncertainty

In this case study, the Company has done scenario modelling and made assumptions around future demand, geopolitical risk and its liquidity. It has used that to address issues around solvency and going concern. It has used this modelling to set in place mitigation strategies.

Further examples of how modelling might be undertaken when there is material uncertainty around going concern are set out in case studies 2 and 3.

CASE STUDY 2
CONSIDERATIONS AROUND DISCLOSURE OF GOING CONCERN IN AN UNLISTED FOR-PROFIT ENTITY

Case Studies 2 and 3 look at how a for-profit and a not-for-profit entity respectively might make disclosures when there is a material uncertainty around going concern. They also illustrate how an entity might undertake scenario modelling and assess probability and determine whether a disclosure is material.

Background

The Company is an unlisted entity involved in running two hotels, one in Queensland and one in Western Australia. COVID-19 lockdowns and border closures, both international and domestic, have substantially impacted patronage at the hotels. Occupancy rates between 1 April and 30 June fell by 89 per cent compared to the same period in 2018-19.

For the year ended 30 June 2020 the Company reported a net loss of $9,458,276 and operating cash outflows of $11,208,483. The operating cash outflows have been funded by cash inflows from borrowings of $15,000,000. Covenants with lenders and financing arrangements with the Company's bank have been renegotiated. As at 30 June 2020, the Company had net current liabilities of $438,065 with cash reserves of $4,288,642. The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expense for the 12 months to 30 June 2021, dependent on whether revenue increases.

The Company has received the JobKeeper Government assistance for a significant proportion of its workforce.

For the purposes of this exercise we have assumed that the conditions set out in the background indicates a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. As always, the Company would be required to prepare cash flow projections that support its view that is to continue as a going concern.

Given the material uncertainty relating to going concern, the directors at a minimum would refer to the disclosures made in the notes to the financial statements, regarding the nature and impacts of the events or conditions leading to the uncertainty, details of plans to deal with it and the assumptions made by management in preparing the financial statements, and may provide additional information about the different scenarios considered in arriving at the assumptions built into the cash flow projections.

Disclosing assumptions used to make going concern determination

We have devised some assumptions that this fictional company's management may have made when setting out cash flow projections and assessing whether the assumptions are material or not material, that is whether the outcome may have material impact on the financial report. If the assumption is not material, it probably does not require disclosure, although the directors could of course still choose to disclose it. In this case the assumptions are all about events that are wholly uncertain and outside the Company's control (border openings etc) so the Company would also want to disclose the level of uncertainty.

Assumption applied	Material Uncertainty?	Reason why the event or condition is uncertain
Domestic borders in Queensland and Western Australia remain open for at least 9 months of the year including from 1 October 2020 to 30 March 2021	Yes	The opening or closing of borders directly affects the level of demand for the Company's services however government restrictions in future months cannot be predicted.
New Zealand tourists allowed to enter Australia from 1 January 2021, with an expected tripling of bookings due to inability to travel elsewhere	Yes	As above
Australia allows international tourist from other key markets to enter the country from 1 April 2021 onwards	Yes	As above
Occupancy rates at the hotel returns to at least 75 per cent of their 2018-2019 level.	Yes	As above
Australian Government continues providing JobKeeper support until September and then withdraws it but does not extend the assistance.	Maybe	Continuation of Government assistance is uncertain, although by the time the directors' report is signed greater certainty may be available. Any on-going assistance provided may have a material impact.
Loan covenants with Company's bank are not breached	Maybe	Not disclosed in this case study because directors have judged that there is a low probability of this occurring. If probability was greater might require disclosure. Could consider disclosing covenant requirements.
There is not a significant rise in COVID-19 infections in the community in 2020/21	No	While the infection rate cannot be accurately predicted, it is a key factor impacting the level of government restrictions, the effect of which has been considered above.
No political instability or COVID-19 outbreaks in key foreign markets preventing international tourists travelling to Australia	No	Implicit in occupancy assumption disclosed.
AUD sits in range between 0.7USD and 0.9USD	No	Not an export focussed business. Note if this was an export focussed business this might be material and the Company would need to disclose its probability and how it reached that assumption.
No outbreak of pandemic amongst employees	No	Low probability. However, Company may wish to address risk elsewhere by disclosing aspects of its business continuity plan.

Mitigation

The Company may also disclose steps it might take to mitigate if its assumptions are not met. In this example that might include capital raising, the sale of assets such as property or other financing arrangements with lenders.

CASE STUDY 3
CONSIDERATIONS AROUND DISCLOSURE OF GOING CONCERN IN AN NFP ENTITY

Background

The Charity is a not-for-profit (that is registered as a charity) that provides educational support and assistance to disadvantaged primary school students. It has a staff of 12 (including casuals) and is supported by a large volunteer group. The volunteer group is primarily retired schoolteachers with an average age of 63. This work was suspended while schools were closed during COVID-19 and some teaching took place via Zoom.

The Charity receives funding and support from various State governments and the Australian Department of Education. The vast majority of these grants are locked in over the financial year however two State government grants, worth 20 per cent of revenue, are up for renewal.

The Charity traditionally holds a major fundraising dinner each year in each of Sydney, Melbourne, Brisbane, Adelaide and Perth. This attracts significant corporate support as well as donations from individuals.

Approximately 50 per cent of revenue is raised from these dinners. However, they are also expensive to hold and around 20 per cent of all operating costs are spent on supporting these dinners.

The Charity has no significant assets and has a small overdraft facility with its bank. It has no outstanding loans.

When social distancing measures were imposed the Charity was able to reduce hours of some of its casual employees and cancelled two fundraising dinners. Although it suffered a significant revenue drop it was not sufficient to be eligible for the Government's JobKeeper scheme.

For the purposes of this exercise we have assumed that the conditions set out in the background indicates a material uncertainty that may cast doubt on the Charity's ability to continue as a going concern.

Disclosing assumptions used to make going concern determination

As set out in Case Study 2 here are the assumptions the Charity may consider when disclosing around Going Concern. These are purely fictional assumptions made for the purposes of illustration.

Assumption applied	Material Uncertainty?	Uncertain event or condition
Volunteer group is able to attend schools from at least 1 September onwards. Prediction that volunteer numbers will reduce by between 25% and 50% due to COVID-19 related risks of cohort of volunteers.	Yes	This is the purpose of the Charity. If it cannot fulfil its key function or access volunteers it might need to question whether it remains a going concern.
Fundraising dinners will still be able to be held. At least 50% of normal revenue is raised at those dinners and operating costs are reduced to reflect smaller turnout.	Yes	Ability to hold dinners will depend on government restrictions being lifted which cannot be accurately predicted, but is key to achieving forecast revenue. Need to disclose basis of assumption of probability that restrictions lifted to this level. Acknowledge uncertainty.
Both State grants are renewed on same or similar terms.	Yes	As above. The Charity may need some evidence to support its assumption that this will occur. There may be less uncertainty around this disclosure than other assumptions based on past interactions with government.
There is not a significant rise in COVID-19 infections in community in 2020/21	No	Implicit in above assumptions
No outbreak of pandemic amongst employees	No	Low probability. However Company may wish to address risk elsewhere by disclosing aspects of its business continuity plan.
No breach of covenant with lender	No	Loan is very small and unlikely to effect going concern.
Lack of internal controls in remote working	No	This does not effect going concern but this is a risk that the Charity may wish to ensure it addresses.

Mitigation

The Charity might also disclose steps it might take if its assumptions are not met in order to remain a going concern. This might include:

- investing in remote technologies and Zoom to allow volunteers to provide teaching to students without entering schools or coming into personal contact
- reductions in costs including scaling back operations if activities are also scaled back
- moves to other forms of fundraising such as on-line fundraising
- further cuts to staffing.

APPENDIX C

Detailed considerations for the financial statements

Having identified significant general considerations applicable to preparing financial statements during the COVID-19 pandemic, this Appendix discusses more specifically the key considerations preparers and auditors will need to address in finalising individual revenue, expense, asset and liability balances within those financial statements and notes. These considerations identify key principles of the relevant accounting standards, referencing where applicable additional information that may assist in applying the specific requirements.

STATEMENT OF FINANCIAL PERFORMANCE/INCOME STATEMENT/PROFIT AND LOSS AND RELATED NOTES

The Corporations Act 2001 requires that the financial statements and notes must comply with the accounting standards and give a "true and fair" view of the financial position and performance. The relevant accounting standard AASB 101 *Presentation of Financial statements* requires the statement of financial performance to fairly present the financial performance of the entity and sets out basic presentation requirements which are then augmented by specific standards dealing with revenue and expenses. The provision of additional information is permitted, but this should only be done where it provides clarity, does not mislead and does not prevent compliance with the requirements of the accounting standards, including AASB 101.	*Corps Act s296 and 297* *AASB 101 p15*
Possible areas of the income statement where adjustments to measurement, presentation and disclosure may be required include:	
• **Revenue** – COVID-19 may impact revenue recognition criteria under AASB 15 *Revenue from Contracts with Customers* and entities may need to reconsider whether the assumptions used in the measurement of revenue reflect current market conditions. This could lead to alteration of the way the entity disaggregates revenue to reflect the effect of these conditions on its revenue streams. Changing economic conditions may also require some changes to the way segment disclosures are made, especially if business activities change. Segment reporting follows management reporting and since management may have changed the way it reports in the current circumstances, this should be reflected in segment reporting as well.	*AASB 15 p114, B87-89* *AASB 101 p 45* *AASB 8*
• **Expense items** - AASB 101 requires that entities should present additional information, line items or subheadings that will assist in understanding the entity's financial performance. For example COVID-19 may result in the need for separate, additional disclosure of information related to: - discontinued operations - changes necessitated if share based payments are adjusted for changed vesting conditions - impairment losses recognised during the year (see assets section below) - onerous contract provisions - annual leave and long service leave provisions and termination benefits for redundancies - taxation, including recoverability of deferred tax assets and the impact of any impairment on deferred tax.	*AASB 101 p85* *AASB 5* *AASB 2* *AASB 136* *AASB 137* *AASB 119* *AASB 120*
• **Operating profit** - AASB 101 does not permit the presentation of "extraordinary items" and therefore it will not be possible to exclude the impact of COVID-19 related items of income or expense from the profit or loss disclosed for the year on the face of the income statement, or in the notes as extraordinary items. Any new subtotals developed in the income statement for clearer presentation must be reconciled to the amounts required to be presented under the accounting standards (see Section 2).	*AASB 101 p87* *AASB 101 p85,* *ASIC RG 230* **ASIC FAQ 5**
• **Leases** – the treatment for COVID-19 related modifications to rental payments could qualify for simplification under **AASB 2020-4 Covid 19-related rent concessions**, which amends the lessee accounting requirements of AASB 16 Leases. It applies from 1 June 2020 with early adoption and retrospective application permitted. Adoption of this accounting policy option includes specific disclosure requirements.	*AASB 2020-4 amends AASB 16 p 46A*
• **Government assistance** – Consideration needs to be given to accounting for the receipt of government stimulus packages such as JobKeeper and Cashflow Boost, either as part of income or, in the case of for-profit entities only, as a credit against the relevant expense item.	*AASB FAQ guidance*

STATEMENT OF FINANCIAL POSITION/BALANCE SHEET AND RELATED NOTES

Consistent with the requirements for the statement of financial performance/income statement, the Corporations Act requires that the statement of financial position/balance sheet and related notes also must comply with the accounting standards and give a "true and fair" view of the financial position and performance of the entity. The relevant accounting standard AASB 101 *Presentation of Financial statements* requires the statement of financial position to fairly present the financial position of the entity and sets out basic presentation requirements, which are then augmented by specific standards dealing with assets and liabilities. The provision of additional information is permitted, but this should only be done where it provides clarity, does not mislead and does not prevent compliance with the requirements of the accounting standards, including AASB 101	*Corps Act s296 and 297* *AASB 101 p15*
ASSETS Possible areas of the balance sheet where adjustments to measurement, presentation and disclosure of assets may be required include the following.	
Impairment For many entities in many different industries and sectors, the COVID-19 pandemic is an example of an external event that provides an indicator of impairment of certain assets under AASB 136.	*AASB 136 p9*
The impairment assessment requirements of AASB 136 apply to a variety of assets including: · property, plant and equipment (AASB 116), right-of-use assets (AASB 16) and investment property carried at historical cost (AASB 140), financial assets classified as subsidiaries (AASB 10) associates (AASB 128) and Joint arrangements (AASB 11) all of which only require assessment if indicators of impairment exist.	*AASB 136 p2 & p4*
· goodwill (AASB 3) and intangible assets with an indefinite useful life (AASB 138), must be assessed for impairment at least annually, regardless of any impairment indicators. It should be noted that if the impairment test was conducted earlier during the year and there are indicators of impairment at the year-end, the impairment test must be reperformed at the year-end.	*AASB 136 p9 & p10*
AASB 136 sets out a number of indicators that need to be considered when assessing whether there is any indication of impairment. If there is any such indication, AASB 136 requires the recoverable amounts of assets to be assessed, and if this amount is less than the asset's carrying amount, an impairment loss must be recognised. These assessments, which involve forecasting budgets and cash flows and assessing appropriate discount rates, could be complex in the current uncertain and changing economic conditions.	*AASB 136 p12(a)&(b)* *AASB 136 p8*
COVID-19 related considerations in respect of some of these assets could include: · **Property plant and equipment and right-of-use assets** – changes in business activity may impact the value of the equipment, any residual values or its useful life. · **Assets including intangible assets and goodwill** – the value of future cash flows supporting these valuations in the current circumstances may be more difficult to estimate and require more considered attention.	*AASB 136 p59 & p60*

STATEMENT OF FINANCIAL POSITION/BALANCE SHEET AND RELATED NOTES

For assets outside the scope of AASB 136, other standards require that they too are assessed to ensure that the amounts recognised in the balance sheet do not exceed their recoverable amount. These standards contain more detailed guidance on the assessment of recoverable amounts for those specific asset categories and prescribe the related disclosures when balances are reassessed or written down. COVID-19 related considerations for these asset categories include: · **Inventory** – Supply-chain disruptions, reduced economic activity, forced shut-downs etc. have all been unfortunate consequences of the COVID-19 pandemic. These circumstances could impact the availability of inventory and its ability to be resold triggering the requirement in AASB 102 to remeasure inventory at net realisable value if this is now below cost. Costs of manufactured inventory may also be impacted by changing production levels as overheads must be allocated based on normal production.	*AASB 102 p9* *AASB 102 p13*
· **Trade receivables** - customer cash flows may be significantly impacted by COVID–19 and so the impairment of any debtor balances must be considered in accordance with the impairment requirements of AASB 9 Financial Instruments. An entity is required to assess whether the credit risk of a financial asset has increased significantly since initial recognition and if that is the case, assess the expected credit losses for that instrument by identifying any change in the risk of default over the life of the instrument. In performing this assessment, it is important to consider whether other financing arrangements can be arranged for the repayment of the receivable or if the business impact of COVID-19 has been so severe that the receivable cannot be collected. Trade receivables without a significant financing component can be assessed using the simplified model under AASB 9.	*AASB 9 p5.5* *IASB guidance*
· **Deferred tax assets** – consider whether the conditions for recognition of deferred tax assets, especially recoverability of deferred tax assets based on tax losses, still exist in current economic conditions.	*AASB 112 p34-p36*
· **Contract assets** – Contract assets recognised in accordance with AASB 15 will need to be assessed for impairment in accordance with AASB 9.	*AASB 15 p107*
Additional Guidance can be found in ASIC **Information Sheet 203** Impairment of non-financial assets: Materials for directors (INFO 203). Impairment is a key focus area for ASIC in its June 2020 financial reporting surveillance program.	
Fair value Many assets are now carried at fair value in the financial statements and these values may have been impacted by a variety of factors arising from now changed, business conditions.	
As a general principle, quoted prices in active markets provide the best available evidence of fair value. Therefore, quoted investments recognised at fair value should be based on quoted prices at the reporting date as this is likely to be the most reliable evidence of fair value.	*AASB 13 p76*
Where alternative inputs other than quoted prices are used, AASB 13 *Fair Value Measurement* requires substantial disclosures about the inputs and assumptions, which need to reflect the best available evidence at measurement date.	*AASB 13 p91-p93*
Additional fair value considerations for specific asset categories include: · **Investment property carried at fair value** - fair value must reflect current market conditions and rental yields from current leases.	*AASB 140 p40*
· **Property plant and equipment at revaluation** – must be carried out with sufficient frequency to ensure that the values do not differ materially from fair value at reporting date.	*AASB 116 p31*
· **Unlisted equity investments and similar level 2 or level 3 assets carried at fair value** - these will also need to be reassessed to determine the effect of any impacts on their valuation arising from changed business activities.	*AASB 13 p 81-87*

STATEMENT OF FINANCIAL POSITION/BALANCE SHEET AND RELATED NOTES

Estimates and judgements Assessments of recoverable amounts and fair values necessarily involve estimation and individual circumstances can mean that what is a reasonable assumption in the circumstances can vary between entities and over time. This means evidence-based decision making is important, as is good documentation of the decisions reached. This will allow these decisions to be challenged and independently assessed and verified by external auditors.	*AASB 108 p33*
The use of reasonable estimates does not undermine the reliability of the financial statements. However, changes in the use of estimates that affect the current or future financial statements must be clearly disclosed and recognised in the profit and loss for the year in which the change is made. Where estimates are material and particularly subjective it may be appropriate to disclose values derived from sensitivity analysis of various alternative scenarios. It is also important to ensure that assumptions are applied consistently throughout the financial statements (see Section 2).	*AASB 108 p36 & p39*
Classification as current/non-current COVID-19 may result in changed expectations about when assets are expected to be realised, altering their classification as current/non-current.	*AASB 101 p 66*
In addition to the above general considerations that affect many asset types, the following are some specific considerations applicable to individual asset categories:	
· **Revenue recognition** - Contract modifications should be carefully assessed as the accounting can be complex. Estimates of variable consideration should also be updated at the reporting date.	*AASB 15 p56*
· **Borrowing costs** - The capitalisation of borrowing costs will need to cease for any extended period where asset construction was ceased.	*AASB 123 p20*
· **Property plant and equipment** - The useful lives and residual values of assets not in use may need reconsideration, impacting deprecation rates, particularly straight-line depreciation.	*AASB 116 p50*
· **Non-current assets held for resale and discontinued operations** – COVID-19 related business restructurings could require non-current assets to be valued at the lower of carrying amount or fair value less costs to sell, rather than value in use and also require segments to be reassessed under AASB 8.	*AASB 5 p6*
· **Government grants** – The terms and conditions of these grants need to be understood and then recognised in accordance with AASB 120 *Accounting for Government Grants and the disclosure of government assistance* or AASB 1058 *Income for Not for profit entities*.	*AASB 120 and AASB FAQ*
· **Insurance recoveries** – If the entity is entitled to recover any business losses from insurance, consideration needs to be given to how these should be accounted for.	*AASB 116 p65, AASB 137 p 53*
· **Financial instrument risk disclosures** – AASB 7 *Financial Instruments: disclosures* requires qualitative and quantitative disclosure of information about managing credit risk, market risk and liquidity risk related to financial instruments, all of which may have altered as a result of changed business conditions under COVID-19.	
· **Business combinations, Investments in subsidiaries, joint ventures and associates** - Consider whether the current circumstances impact contracts and arrangements in ways that might require a reassessment of control or significant influence (see AASB 10 *Consolidated Financial Statements*), or the valuation of investments (AASB 127 *Separate Financial statements*, AASB 128 *Investments in Associates and Joint Ventures*).	

STATEMENT OF FINANCIAL POSITION/BALANCE SHEET AND RELATED NOTES

LIABILITIES

Possible areas of the balance sheet where adjustments to measurement, presentation and disclosure of liabilities may be required include:

Provisions and Onerous contracts AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires a provision to be recognised when there is a present obligation as a result of a past event, a probable outflow of resources and a reliable estimate can be made of the amount. Therefore, clear evidence of decisions taken are necessary to demonstrate the existence of an obligation that allows restructuring or retrenchment provisions to be recognised in the financial statements.	*AASB 137 p14* *AASB 137 p72*
Changed business conditions under COVID-19 may also impact an entity's supply contracts, other contracts and leases. These should be examined to determine whether there is a 'force majeure' clause that could relieve the entity of any onerous obligations. If such relief is not available an assessment will need to be made as to whether the expected economic benefits could be less than the unavoidable costs of the contract, triggering an onerous contact obligation.	*AASB 137 p66-69*
Provisions need to be reviewed annually and adjusted to reflect the current **best estimate of the obligation.**	*AASB 137 p72*
Estimates and judgements Provisions necessarily involve estimation and individual circumstances mean that what is a reasonable assumption in the circumstances may vary between entities and over time. This means evidence-based decision making is important, as is good documentation of the decisions reached. This will allow these decisions to be challenged and independently assessed and verified by the auditors.	*AASB 137 p59*
The use of reasonable estimates does not undermine the reliability of the financial statements. However, changes in the use of estimates that affect the current or future financial statements must be clearly disclosed and taken to the profit and loss in the year in which the change is made. Where estimates are material and particularly subjective it may be appropriate to disclose values derived from sensitivity analysis of various alternative scenarios used. When disclosing sensitivity ranges, one should be mindful of the most likely scenarios to be encountered in the 12 months from the date of approving the financial statements. It is also important to ensure assumptions are applied consistently throughout the financial statements (see Section 2).	*AASB 137 p25* *AASB 108 p36, p39*

STATEMENT OF FINANCIAL POSITION/BALANCE SHEET AND RELATED NOTES

Classification as current / non-current COVID-19 may result in changed expectations about when liabilities are expected to be paid, altering their classification as current/non-current. Liabilities where this may be particularly relevant are: · **Trade and other payables** - especially if financing arrangements are entered into for repayment · **Loans and other borrowings** - especially where debt covenants are at risk of being breached. In these circumstances financing terms may need to be renegotiated if the debt is to continue to be classified as non-current. If financial terms are not renegotiated before the year-end, it may lead to classification of the debt as current. If a waiver of a breach is received before the year-end, this could also affect classification.	*AASB 101 p69*
Specific considerations In addition to the above general considerations that affect many liability types, the following are some specific considerations applicable to individual liability categories:	
· **Employee entitlements** – industry circumstances will determine if employees are impacted at all, redeployed stood down or retrenched, and their eligibility for government support. Unless staff are retrenched, entities are generally required to continue to accrue leave entitlements, although usage patterns many change significantly requiring reassessment of classification as current / non-current. Consideration may also need to be given to the treatment of share-based payments, termination benefits and the assumptions underlying defined benefit plans.	*AASB 119 and AASB 120*
· **Lease liabilities** – Any variations to lease contracts that do not qualify for the recently announced relief (see **amending standard AASB 2020-4 Covid 19 related rent concessions)** will need to be assessed as to whether such variations meet the definition of a "lease modification" which will require remeasurement of the right-of-use asset and lease liability.	*AASB 16 p39-46*

Useful references

- **AASB Covid-19 webpage**
- **CPA Australia's Guide to Understanding Annual Reports: Australian Listed Companies**
- **CA ANZ COVID-19 resources hub**
- **CA ANZ video interviews with standard setters - Reporting and audit implications of COVID-19**

APPENDIX D

Understanding Auditor's Report paragraphs and modifications

The purpose of each type of additional paragraph and modification to the auditor's opinion which may be included in the auditor's report, along with how the impact of COVID-19 is likely to be reflected in each, is set out below.

Auditor's report paragraphs not impacting the opinion

Paragraphs in the auditor's report may highlight COVID-19 related issues, which the auditor focussed on in their engagement or which are properly disclosed in the financial report but the auditor wants to highlight. These four types of paragraphs or sections do not impact the auditor's opinion:

1. *Key Audit Matters (KAMs) – focusses on the audit effort arising from COVID-19 where no concern is raised.*

A separate section of the auditor's report under the heading "Key Audit Matters" is required for listed entities. KAMs are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report.

The auditor describes:

- why the matter was considered to be one of most significance in the audit of the current period; and
- how the matter was addressed in the audit.

KAMs relating to COVID-19 may include:

- How the risks arising from COVID-19 have impacted the audit approach, for example impairment assessments made and impairment losses recognised.
- New areas of significance not usually raised, including inventory existence or expected credit losses in assessing doubtful debt provisioning.
- Expanded KAMs around disclosures and particular scenarios and sensitivities.
- Reordering of KAMs – the most important KAM is the first KAM.
- Going concern when a "material uncertainty related to going concern" paragraph (see below) was not necessary but the auditor has focussed significant effort to gain comfort that the use of the going concern assumption was appropriate and that no material uncertainty exists, even if it may be a "close call". However, if a material uncertainty related to going concern does exist and a paragraph to that effect is included (see below), then it should not be included as a KAM.

2. *Material Uncertainty Related to Going Concern*

Where a material uncertainty related to going concern (MURGC) has been identified, but is appropriately disclosed in the financial report and the use of the going concern basis of accounting is still appropriate, the auditor is required to include this additional paragraph entitled 'Material Uncertainty Related to Going Concern' to draw attention to this uncertainty. MURGC's will be more likely due to the uncertainties arising from COVID-19.

See Section 5 of this Guidance on going concern for more details.

3. *Emphasis of Matter paragraph*

An Emphasis of Matter (EOM) paragraph is used to draw the users' attention to a matter that is both fundamental to users' understanding of, and is appropriately presented or disclosed in, the financial statements. An EOM does not include uncertainties related to going concern, as these are required to be included under a separate MURGC paragraph (see above).

EOMs are much less common when KAMs are reported in the auditor's report. This is because for those entities where KAMs are required to be reported, and a matter meets the definition of a KAM and an EOM, it will be reported as a KAM. This allows the auditor to include additional information in the description of the KAM.

> In the current circumstances, for audits where KAMs are not required to be reported, there are likely to be more EOMs.

4. *Other Information*

In the auditor's report the section on "Other Information" refers to any information, whether financial or non-financial, in the annual report outside the audited financial report. This includes the director's report, OFR, other management reports or commentary, the Chair's report and any corporate governance statement.

Where the auditor obtains any of the Other Information prior to finalising their report, the Other Information section identifies whether it contains any material misstatements. Material misstatements include any material inconsistencies with the audited financial statement or knowledge obtained by the auditor in the audit. For listed entities, where the auditor has not been provided with the Other Information prior to signing their report then the missing information is identified. The auditor is required to read that Other Information, once available, and bring any material inconsistencies to users' attention.

The auditor does not express an opinion or conclusion on the other information, however the auditor is required to read the information available and consider whether it is consistent with the assumptions and estimates underlying the financial information as well as the auditor's understanding of the entity, including the assessed risks and the basis for the going concern assessment. The auditor communicates any material inconsistency in the Other Information paragraph and considers the impact on their opinion. The uncertainties caused by COVID-19 will make the assessment of the consistency of other information particularly challenging and important as that information may include the director's assessment of the future prospects of the entity. This should be consistent with assumptions which underly the preparation of the financial report, including accounting estimates, going concern and solvency assessments.

Modified Auditor's Opinions

If COVID-19 related issues adversely impact the auditor's opinion, the different types of modified opinions which the auditor may reach are:

1. *Qualified opinion*

When an auditor concludes that there is either a lack of sufficient appropriate audit evidence, or actual (or potential) material misstatements in a financial report, which is limited to a specific matter and is not pervasive, then the qualification of the auditor's opinion only applies to those items.

In this case the auditor is reporting that "other than" the specific items described, they have concluded that the financial statements are otherwise true and fair.

Lack of evidence may arise from:

- Circumstances beyond the control of the entity – when access to the entity's accounting records and/or audit evidence may be restricted due to government-imposed lockdowns during the COVID-19.

- Circumstances relating to the nature or timing of the auditor's work - the impact of COVID-19 on the ability of the auditor to obtain sufficient appropriate audit evidence for components, associates or joint ventures due to their locations and travel restrictions.

Material misstatements may arise from:

- The inappropriate application of the accounting policies – for the valuation of assets and liabilities whose values are significantly affected by COVID-19.
- Inadequate disclosures of the impacts of COVID-19 in the financial statements regarding risks, estimates and judgements applied.

Arises due to going concern: Where the auditor concludes that the use of the going concern basis of accounting is appropriate, but a material uncertainty related to going concern exists which has not been appropriately disclosed.

2. Adverse opinion

When an auditor has been able to obtain sufficient appropriate evidence and concludes that material and pervasive misstatements exist that undermine the reliability of the financial statements as a whole, they give an adverse opinion.

Arises due to going concern: Where the auditor does not agree that the use of the going concern basis of accounting is appropriate, but nonetheless the entity has prepared financial statements on a going concern basis.

3. Disclaimer of opinion

When an auditor has not been able to obtain sufficient appropriate evidence to be able to give an opinion but concludes that material and pervasive misstatements may exist or there are multiple material uncertainties, then they 'disclaim' their opinion entirely. This means that the auditor does not know whether there are any material misstatements, and cannot under the circumstances determine otherwise or there is a cumulative effect of the uncertainties.

Given the current environment, it is possible that there may be a number of disclaimer of opinions where the auditor is unable to obtain sufficient appropriate audit evidence.

Arises due to going concern: Where a lack of evidence to support the going concern basis of accounting leaves the auditor unable to conclude on whether the use of the going concern basis is appropriate.

Relevant Resources:

IAASB Staff Alert: Auditor reporting in the current evolving environment due to COVID-19

IAASB Staff Alert: Going Concern in the Current Evolving Environment Audit Considerations for the Impact of COVID-19

ASIC FAQ 17 *What is the impact on the audit report and should all audit reports contain a general emphasis of matter paragraph on uncertainties relating to the COVID-19 pandemic?*

ASIC FAQ 18 *Should an auditor delay their opinion until a limitation or uncertainty is resolved?*

CPA Australia's Guide to Understanding Auditing and Assurance: **Australian Listed Companies**

IN THE BLACK Article: **Auditors may face difficult conversations regarding going concern**

CA ANZ: **Auditing in a crisis – some issues to consider**

APPENDIX E

Regulatory Relief

The main regulatory relief provided by Commonwealth, State and Territory regulators, with respect to financial reporting, audit and holding of AGMs, for entities required to lodge financial reports or financial statements are summarised below.

Jurisdiction	Regulator link	Relief provided
Commonwealth – listed and unlisted entities; companies limited by guarantee	**Australian Securities and Investments Commission (ASIC)** **See also ASIC FAQs: Reporting deadlines and annual general meetings (AGMs)** **ASX** **NZ Financial Markets Authority (FMA)**	**Financial Report Lodgement** • Blanket one-month extension for lodgement of full year and half-year financial reports by all listed with 21 February 2020 to 7 July 2020 balance dates and unlisted entities with year ends from 31 December 2019 to 7 July 2020. This will mean that for 30 June 2020 year-ends, public companies financial report deadline will be extended from three to four months and public companies limited by guarantee will be extended from four months to five months. • ASX listed entities still need to lodge their Appendix 4E Preliminary Final Report under ASX Listing Rules 4.3A and 4.3B by the due date, 2 months after year end, on 31 August 2020 for 30 June 2020 year ends, but the accounts can be unaudited. The requirement for audited or reviewed accounts lodged under Appendix 4D Half-year Reports as required by ASX listing rule 4.2A has not be addressed by the ASX at the time of publication, so these are still required to be lodged within 2 months of year end or 75 days for mining entities having been audited or reviewed. • The ASX has issued a **class waiver** that enables all entities admitted to the official list in the ASX Listing category to have the benefit of the ASIC relief (see above), although this is subject to a number of conditions. Reporting relief provided by ASX for ASX/NZX dual-listed entities to facilitate the operation of the class waiver provided by the New Zealand Financial Markets Authority, which provides a 2-month audited financial report lodgement deadline extension for all Financial Markets Conduct Act reporting entities with balance dates up to and including 31 July, if their ability to produce financial statements is legitimately impacted by COVID-19. **AGMs** • ASIC has adopted a "no action" position for public companies with 1 June to 7 July 2020 year-ends that hold an AGM in January or February 2021, instead of during the calendar year 2020. • ASIC announced that it will continue to monitor how market conditions and COVID-19 developments are affecting financial reporting and AGM obligations for year-ends post 7 July 2020.
Commonwealth – APRA Regulated Entities: Authorised Deposit-Taking Institutions (ADI), Registered Financial Corporations (RFCs) and Registered Superannuation Entities (RSE)	Australian Prudential Regulation Authority (APRA)	• No blanket annual reporting relief provided for ADIs, RFCs or RSEs, although certain **quarterly reporting relief provided**. This is because the data reported by ADIs and RFCs is essential for prudential supervision, for the monitoring of financial stability, the formulation of monetary policy, and to support Government policy, therefore the provision of timely, accurate information is vital, especially in this period of volatility.
Commonwealth – registered charities	**Australian Charities and Not-for-profits Commission (ACNC)**	• Charities with Annual Information Statement due dates between 12 March 2020 and 30 August 2020 have an extension until 31 August 2020. • The ACNC will not investigate certain breaches of the Governance Standards and the External Conduct Standards that occur from 25 March until 25 September 2020, unless they are significant breaches that harm the public interest. These breaches are: operating outside the charity's purposes, incurring debts such that the charity becomes insolvent, or being unable to obtain reporting from the charity's overseas operations or partners. • Recommends holding AGMs remotely via video or phone conference in order to be accountable to members during social distancing, but to refer to the relevant state or territory regulator to delay or postpone its AGM.

Jurisdiction	Regulator link	Relief provided
Commonwealth – ancillary funds	**Australian Taxation Office (ATO)**	• For public ancillary funds and private ancillary funds, there is no change to the current requirement that the fund should provide the financial statements and audit or review report to the ATO Commissioner on request, unless the reports have already been given to the ACNC.
Australian Capital Territory – incorporated associations and NFPs	**Access Canberra (Fair Trading)**	• Since 1 July 2017, incorporated associations and NFPs with charitable collection licences that are also registered with the ACNC no longer have to lodge financial reports with Access Canberra as long as they comply with ACNC requirements. No specific reporting relief announcements have been made for such entities in connection with the COVID-19 crisis. • A Blanket three-month extension for holding AGMs until 30 June 2020, which will be extended if the restrictions continue beyond 30 June 2020. The extension has been automatically applied. The Associations Incorporation Act 1991 (the Act) has been amended to allow virtual general meetings, which was previous only available to associations that made provision for meetings via alternative communication methods in their rules.
New South Wales – incorporated associations and cooperatives	**NSW Fair Trading**	• Incorporated associations do not have to apply for extensions of time to hold 2020 AGMs or submit annual summaries of financial affairs. 2020 AGMs may be conducted when COVID-19 restrictions are lifted, or 2020 financial information may be presented to members at 2021 AGMs. • Cooperatives do not have to formally apply for time extensions to hold their AGM and lodge the annual return/report up until 30 September 2020, but they are expected to take steps to meet their statutory obligations as soon as practical after restrictions are lifted. Where a co-operative can lodge its annual return/report with Fair Trading within 5 months after the end of its financial year it should do so even if an AGM hasn't been held. • From 2018, incorporated associations that are also registered with the ACNC no longer have to lodge financial reports with NSW government as long as they comply with ACNC requirements.
Northern Territory – incorporated associations	**Northern Territory Government**	• From 2019, incorporated associations that are also registered with the ACNC no longer have to lodge financial reports with the Northern Territory Government as long as they comply with ACNC requirements. No specific blanket relief announcements have been made for such entities in connection with the COVID-19 crisis.
Queensland – incorporated associations	**The Office of Fair Trading** (OFT)	• AGMs for incorporated associations can be delayed up to six months without a written application, in addition to the six months ordinarily required. This may result in a management committee's term being longer than is described in the rules, but the OFT encourages members to be accepting of this. • Lodgement of financial statements with the OFT can likewise be delayed up to six months, as lodgement is required one month after the AGM.

Jurisdiction	Regulator link	Relief provided
South Australia – incorporated associations	**Consumer and Business Services**	· Six-month extension for associations to lodge periodic returns and hold AGMs. · "No action" if virtual AGMs do not comply with the association's rules, but must maintain accessibility and inclusiveness and appropriate record keeping, and give members reasonable notice of meetings and opportunity to ask questions. · "No action" in related to non-compliance involving actions in response to COVID-19. · Since 2017, incorporated associations that are also registered with the ACNC no longer have to lodge financial reports with SA Consumer and Business services as long as they comply with ACNC requirements.
Tasmania – incorporated associations	**Consumer, Building and Occupational Services**	· Since 2016, incorporated associations that are also registered with the ACNC no longer have to lodge financial reports with **Consumer, Building and Occupational Services** as long as they comply with ACNC requirements. No specific blanket relief announcements have been made for such entities in connection with the COVID-19 crisis. · While associations regulate running AGMs through their constitutions, an association may need to delay an AGM due to COVID-19, in which case the committee should discuss the possible delay with their members while considering their constitution's requirements, and may agree on a time to meet again and hold a special general meeting to deal with any outstanding business. · Associations are still required to complete and lodge the annual return form.
Victoria – incorporated associations and fundraising licensees	**Consumer Affairs Victoria**	· Since 2018, incorporated associations that are also registered with the ACNC no longer have to lodge financial reports with Consumer Affairs Victoria as long as they comply with ACNC requirements. No specific blanket relief announcements have been made for such entities in connection with the COVID-19 crisis. However Consumer Affairs Victoria has indicated that if the current crisis makes it difficult to engage an independent accountant or auditor to review financial statements, an extension may be requested. · Three-month extensions of time to hold an association's AGM are being granted upon application with the usual fee waived. · NFPs with a fundraising licence have to lodge financial reports with the regulator. No blanket relief announcements have been made for such entities in connection with COVID-19.
Western Australia – incorporated associations and fundraising licensees	**Department of Mines, Industry Regulation and Safety**	· Although there are financial reporting and audit or review requirements applicable to incorporated associations in Western Australia, such entities are not required to lodge these financial reports with the regulator. No blanket reporting relief announcements have been made for such entities in connection with COVID-19. · Associations can apply for an extension of time to hold its AGM, if they require more than the usual six months after financial year end. The application fee has been waived. · NFPs with a fundraising licence have to lodge audited financial reports with the regulator. No blanket relief announcements have been made for such entities in connection with COVID-19.

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