

# Reporting under COVID-19

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Responding to COVID-19: A practical approach

## Africa and China – “twin supply-demand shock”

“Edcon unable to pay its suppliers”

Fitch: the Coronavirus outbreak will have a downside risk for short term growth for sub-Saharan African

IPOs in the region are expected to decline

Both businesses and individuals in Africa might find they are **uninsured** for any COVID-19 impacts

Infrastructure – Reduced investments by China into BRI

OPEC has dramatically reduced its outlook for **oil demand**

**Tourism-** Local and international flights disrupted. Hotels and lodges in Zambia reported reduction in bed occupancy to less than 20% at some point.

African **mining industry** faces an inevitable hit from China’s COVID-19 outbreak”

Pharma – shortage of medical products and supplies

“ International Trade Volume and price have been affected. ZMW has depreciated by more than 20% to trade to around ZMW20 per USD’

“**Luxury retail brands** have taken a hit... some have indicated closure already in Zambia.”



# Global supply chains, financial markets and international tourism have been significantly impacted

## Tourism



- Given the low margin environment the aviation industry has always operated in – travel restrictions placed will have a significant negative impact on the industry.
- Travel and tourism impacts are likely to affect many service industries that benefit from tourist activities.

## Banking



- Opportunity for banks to cement customer relations especially with small businesses e.g. through payment holidays
- Pivotal role as a channel for economic stimulus packages
- Reduction of interest rates by central banks resulting in increased lending.

## Construction



- Construction work disruptions due to limited supplies of key materials and equipment.
- Planned projects, particularly in commercial and industrial buildings sector may be delayed or cancelled.

## Retail



- Panic-buying of household and essential personal care items on the rise.
- Reduced spending on clothing, footwear and home products.
- Positive impact for online retail as consumers practice 'social distancing'.

## Energy



- Impact on the solar power industry due to supply chain disruptions.
- Lower power demand from the industrial and commercial sector particularly in China.

## Mining



- Delays in the supply of equipment, parts and consumables may impact productivity.
- Decline in copper demand as China accounts for over half of the world's copper demand.

## Manufacturing



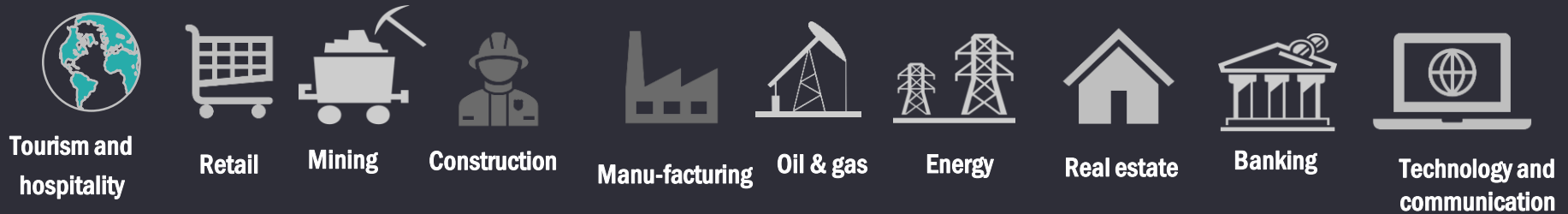
- ▶ Global supply chains have been disrupted given China's role as an intermediate goods producer.
- ▶ Lead time disruptions and suspension of production activities by companies leading to weakness in manufacturing.

## Technology & communication



- Positive impact on collaboration and unified communication platforms
- Minimal impact on the telecom infrastructure supply chain
- Slow-down in infrastructure roll-outs related to 5G and other upgrades
- Reduction in demand for consumer devices.

# Impact of the crisis will vary across the different sectors



## Estimated degree of impact

Highest

Lowest

- ▶ Activities involving travel and direct contact between consumers and service providers (left) has had a notable adverse impact affected by travel restrictions and social distancing - businesses providing essential goods and services may prevent a full cessation of activity in some businesses.
- ▶ Mining has had its own challenges as well coupled with Load shading issues. However, Covid 19 has caused a reduction in exports to China and this has resulted into 30% drop in revenue by July 2020.
- ▶ Non-essential construction work was also affected, either because of containment policies affecting labour availability or because of temporary reductions in investment.
- ▶ Minimal impact on the telecom infrastructure supply chain although delays anticipated in infrastructure roll-outs related to 5G and other upgrades.
- ▶ **The longer the crisis lasts, the more likely more sectors to the right will be heavily impacted.**
- ▶ With businesses struggling to stay afloat over the lock down – the extension to the period threatens cashflows and earnings of businesses of all sizes and significant layoffs.

# Increased risk to financial reporting and close processes

Close likely to take longer with a remote workforce

- ▶ Capacity constraints and knowledge gaps
- ▶ Availability of third party data may be reduced or delayed
- ▶ Access to outsourced operations
- ▶ Access to critical financial systems and data
- ▶ Reduced timeline for review
- ▶ Challenges to efficient control environment
- ▶ Connectivity and access to electricity

Abrupt macroeconomic environment changes will create incremental requirements

- ▶ Less predictable inventory movements and increased obsolescence
- ▶ Decreases in customers' ability to pay
- ▶ Changes in estimated future cash flows
- ▶ Supply chain disruption
- ▶ Revenue changes due to variable considerations and modifications to contracts
- ▶ Companies evaluate the need for restructuring provisions

African regulators are revising regulatory guidelines and requirements

- ▶ Changes to regulatory environment in response to COVID-19 macro-economic challenges
- ▶ AFS reporting deadline extensions
- ▶ Uncertain environment may inhibit meaningful earnings trends
- ▶ Declines in revenue and cashflow, supply chain disruption and business closures could trigger asset impairment and re-evaluation of going concern

# Market communications – what do investors want to know?

**\*Five current questions investors seek information on ...**

## Resources

## Action

## The future

01

How much **cash** does the company have?

02

What cash and **liquidity** could the company obtain in the short-term?

03

What can the company do to manage **expenditure** in the short-term?

04

What other **actions** can the company take to ensure its viability?

05

How is the company **protecting** its key assets and value drivers?



# Market communications: Protecting key assets and value drivers

## Traditional disclosures

- ▶ Current vs non-current loans & loan covenants
- ▶ Asset values and impairment
- ▶ Subsequent events
- ▶ Going concern assertion
- ▶ Estimates and judgements
- ▶ Internal controls
- ▶ Risk management framework
- ▶ Assurance frameworks
- ▶ Trading updates
- ▶ Interim reporting

## Integrated reporting and reporting on shareholder / long-term value

- ▶ Corporate purpose: How is the company realising its purpose in the current circumstances?
- ▶ Value creation: How do the current circumstances impact the company's ability to create value?
- ▶ Corporate governance: Given remote working, how will the company and board monitor culture?
- ▶ Long-term value vs short-term profitability: Survival of the company vs. stakeholder interests. Consideration of long term consequences of decisions made
- ▶ Additional stakeholder engagement
- ▶ Outlook: How to contextualise the long-term outlook in current volatile markets?

# Market communications – what have seen and expect to see

## December 2019 Annual Reports and Accounts

- ▶ References in:
  - ▶ Subsequent events note
  - ▶ Going concern assertions
  - ▶ Estimates and judgements
  - ▶ Risk section – sometimes an emerging risk
  - ▶ Segmental disclosures
  - ▶ ‘Outlook’ narrative in directors report / integrated report
- ▶ Material uncertainties around going concern – starting to be referenced in recently signed Annual Reports

## Review of trading updates

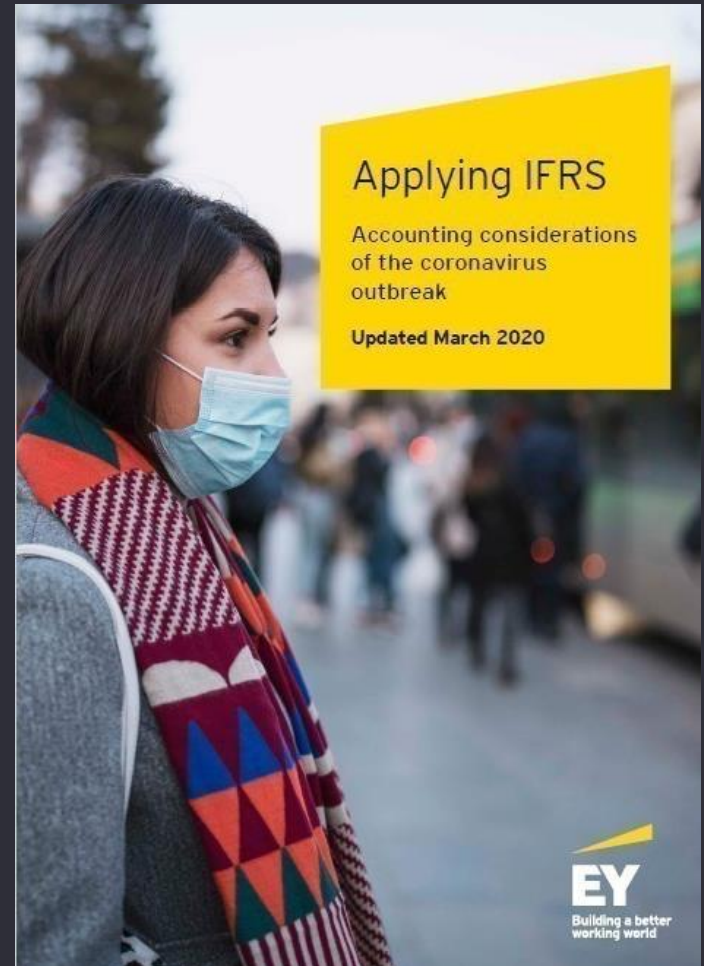
- ▶ Cash and liquidity position, including access to credit facilities and drawdowns
- ▶ Mothballing operations
- ▶ Ability to/actions to redeploy staff
- ▶ Cost reductions – especially discretionary spend
- ▶ Suspension of dividend payments, share buy- back programmes
- ▶ Uncertainty of results/withdrawal of previously issued profit guidance

## Post December 2019 Interim Reports & Annual reports

- ▶ Compliance with IAS 34 or IAS 1
  - ▶ Incorporation into measurement
  - ▶ Ongoing subsequent events note

# Financial reporting technical areas expected to be significantly impacted

- ▶ Events after the reporting period
- ▶ Going concern considerations
- ▶ Fair value measurement
- ▶ Impairment assessment
- ▶ Financial Instruments
- ▶ Leases
- ▶ Revenue recognition
- ▶ Income taxes
- ▶ Onerous contract provisions
- ▶ Government grants
- ▶ Debt classification considerations
- ▶ Other accounting estimates
- ▶ Other financial statement disclosure requirements
- ▶ Insurance recoveries
- ▶ Liabilities from insurance contracts



Does the event (coronavirus pandemic) provide evidence of a condition that existed at the end of the reporting period?

No

Non-adjusting information (i.e. subsequent event)

- ▶ No change to reported numbers
- ▶ Going concern and audit report implications
- ▶ NB: Disclosure
  - Nature of the event
  - An estimate of its financial effect
- ▶ What if the effect cannot be reliably measured?

Yes

Adjusting information

- ▶ Changes the numbers presented at the reporting date

Also consider:

- ▶ Governmental responses (lockdowns)
- ▶ Oil price crash
- ▶ Credit downgrades
- ▶ Change in USD usage (Zimbabwe)



**Material uncertainties & significant doubt about ability to continue as going concern?**



**All information assessed - up to date financials are issued**



**Consider existing & anticipated effects of outbreak**



**NB: Disclose management judgement!**



## Impairment

An asset is impaired when an entity is **not able to recover its carrying value**, either by selling it or using it.

Recoverable amount is the higher of



Fair value less costs to sell

Value-in-use

Impair when



Carrying amount

>

Recoverable amount



Which assets are in scope for IAS 36 impairment?



What is the unit of account for impairment testing?



When does IAS 36 require an impairment test?

- **Goodwill**
- **Intangibles with indefinite useful life**



**Annual impairment test**



**When indicators of impairment exist\***

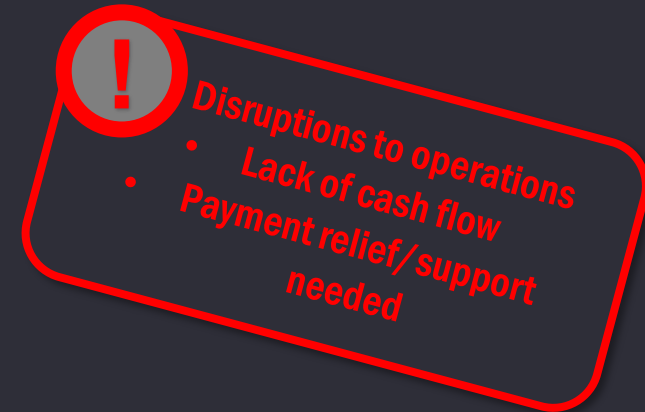
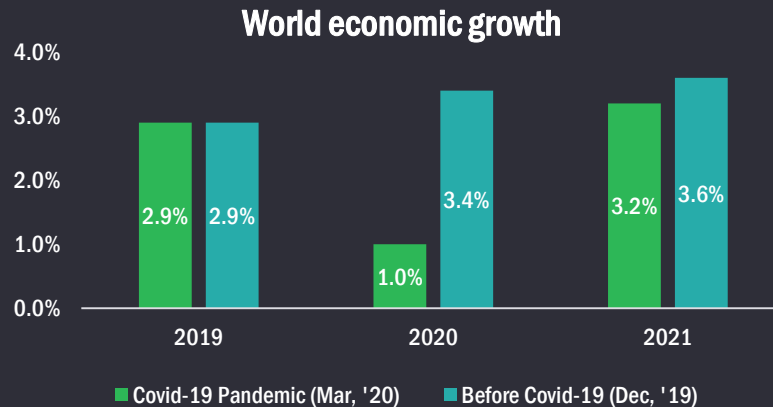
- **Other classes within the scope**



**Assess at each reporting date whether there are indications of impairment\***

\* fall of stock and commodity prices; manufacturing plant shutdowns; shop closures; reduced demand/selling prices for goods and services etc.

## ► COVID-19 is having a detrimental impact on economies



**Disruptions to operations**

- Lack of cash flow
- Payment relief/support needed

## ► IFRS 9 was designed in response to the last global financial crisis to prevent “too little losses recorded too late”

### **QUESTION**

How does COVID 19 impact the estimate of expected credit losses?

# Expected credit losses – IASB & Regulator responses

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- ▶ IASB published educational material on 27 March 2020
- ▶ Key messages:

## Payment holidays

- Payment holidays do not automatically trigger significant increase in credit risk (SICR)
- Assess change in risk of default



## Reasonable and supportable information

- Use best available information (consider government relief measures)
- If this cannot be incorporated in the models, then adjustments / overlays may be needed

# Control Environment: Fraud triangle and COVID-19 impact

- ▶ **Opportunity**
  - ▶ Working from home
  - ▶ Controls relaxed due to necessity
- ▶ **Pressure**
  - ▶ Corporate pressure
  - ▶ Personal pressure
- ▶ **Justification**
  - ▶ “I do not deserve this”
  - ▶ “I have been loyal”



**Which fraud risks increase due to COVID-19?**

**Corruption, collusion,  
kickbacks**

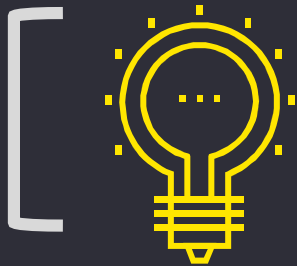
**Charitable donations  
& contributions**

**Fake vendors: medical  
supplies**

**Financial  
statement  
fraud**







## Practical responses organisations can consider

**1**

**Assess** fraud and/or money laundering risks

**2**

**Pro-active** supply chain management and other assessments

**3**

**Awareness** campaigns

**4**

**Investigate** allegations of irregularity and fraud



**Which cyber risks increase due to COVID-19?**

**Hacking**



**Fraud schemes and  
cyber intrusions**

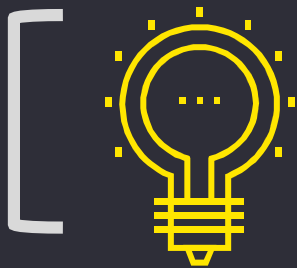


**Phishing / business  
email compromise**



**Fake news**





## Practical responses organisations can consider

**1**

**Awareness** campaigns

**2**

Re-assess control environment, including how **working from home** impacts existing controls and processes

**3**

**Respond** to cyber security attacks: Time is of the essence

**4**

**Pro-active** assessment of data for red flags

**5**

**Monitor** the environment to ensure security protocols are effective

# Impact of COVID-19 on your auditors and what to expect

## Regulator communication to auditors:

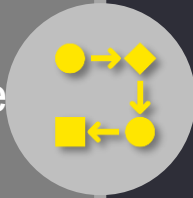
Various audit regulators have reconfirmed their expectations of auditors in the current circumstances to ensure that audit quality is not undermined:

- ▶ Auditors must continue to comply with all relevant standards and obtain sufficient and appropriate evidence in forming their opinion
- ▶ This may require additional time to complete the audit, including assessing the impacts of COVID-19 on the entity, and could delay company reporting
- ▶ Where sufficient and appropriate evidence cannot be obtained then audit reports should be modified as necessary



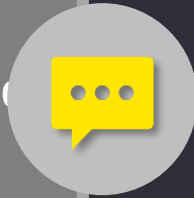
## 1

- Clients should help the auditors understand how the business has been impacted
- Help update understanding of the processes that have changed



## 2

- Expect more conversations with your auditors
- They may need to do a lot more audit work around significant estimates and judgments



## 3

- The audit strategy may change due to changes in processes and risks
- There may be a change in the audit timeline



## 4

- Considerations for the board of directors and the audit committee
- Thought leadership





# Responding to COVID-19: A practical approach

We are advising our clients to manage the impact of COVID-19 by addressing four key questions

