



# COVID-19

Focus On the Impact of COVID-19  
on Financial Statements and  
Auditors' Reports

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# COVID-19

Companies are facing many uncertainties connected with the COVID-19 outbreak. These are affecting their current situation and are also likely to affect their prospects for a considerable period of time. This guide sets out the factors that need to be considered and addressed when preparing the annual financial statements of a company in the current circumstances, and the potential implications for the audit report.

It is important to note that there are very few absolutes. Every business needs to consider its own specific circumstances. Some industries and / or some businesses are not as adversely affected as others by the current restrictions and likely knock-on effects to the wider economy, so an appropriate approach will vary on a case by case basis.



## Financial reporting

Before we address the audit opinion, inevitably we need to start with the financial statements. There are two areas; accounting treatment and disclosure.

### Accounting treatment

One obvious question is whether the effects of the coronavirus outbreak constitute an adjusting or non-adjusting post balance sheet event. An adjusting event is one that provides evidence about conditions that existed at the balance sheet date and requires adjustment to the amounts in the financial statements. A non-adjusting event indicates conditions that arose after the balance sheet date and only disclosures of its nature and financial impact are required in response to it.

This is not simply a question of when the Covid-19 became well known (and pinpointing a date for that is a moot point). The question is more specifically whether specific events give rise to changes in the financial statements amounts, e.g. by highlighting that certain assets were impaired at the balance sheet date.

That said, in the United Kingdom the consensus view of the profession is that entities with reporting periods ending on or before 31 December 2019 should not include the effects of Covid-19 in their balance sheet as it is considered a non-adjusting post balance sheet event.

For later accounting year ends, the specific costs, revenues and valuations will have to be assessed in relation to events that have occurred by the financial year end.

In respect of reporting periods ending on or after 31 March 2020, the effect of the lockdown applied in the UK on 23 March, and any direct effect of the virus outbreak itself, on the operations of a company is likely to be clarified by information that becomes available after the reporting date. Events made before the year end (such as the outcome of an application for emergency government funding or the default of some customers) are likely to be adjusting events.

There are number of issues in respect of the measurement of assets and liabilities in light of the coronavirus outbreak which we will address in a further Focus On publication.

The impact of the coronavirus outbreak in terms of extent and duration of the lockdown measures, their impact on the economy and on assets prices is also likely to create uncertainty about the ability of a company to continue as a going concern. The impact should be assessed in terms of revenues, fixed and variable costs and cash flow requirements. In respect of the latter, a company should consider it these can be met by current or potential cash resources, including access to new financing facilities.

If a material uncertainty about the ability to continue as a going concern is identified, the company should provide disclosures about it that are as specific to the company as possible. In all cases of course, if it appears likely that the going concern assumption is no longer applicable, this will have to be reflected in how the accounts are drawn up.

## Disclosure

Regardless of the accounting treatments, it is almost certain that any set of financial statements will need to include some disclosure of the impact of Covid-19.

In most cases, there will need to be disclosure within the Financial Statements referring to Covid-19 in the following:

- Strategic Report (if applicable);
- Directors' Report;
- Accounting policies;
- Other notes

The exact wording (both with reference to going concern and other matters) will vary on a case by case basis but we can help you with this.

## Auditors' reports

The decision diagram we use as auditors has not changed as a result of Covid-19 and every audit report will continue to include some reference to going concern. What will be different in a lot of cases will be the conclusion we draw and the subsequent disclosure and / or opinion in our report.

We summarise the possible outcomes in the table below:

Going concern	Section of Audit report	Other comments
No material uncertainty	"Conclusions relating to Going Concern"	Whereas this would previously have been the most common outcome, we anticipate this will be rare (but not unheard of) in the current circumstances.
Material uncertainty – properly disclosed	"Material Uncertainty related to Going Concern"	This will be very common but management and auditors will often have to work hard to be satisfied that the entity is still, on balance with the current information available, a going concern.  The exact wording will vary on a case by case basis.
Material uncertainty – not properly disclosed	Qualified or adverse opinion	This will continue to be extremely rare (as we will work with you to ensure there is adequate disclosure).
Not a going concern – accounts prepared on the going concern basis	Adverse opinion	Again, we hope this is very rare.
Not a going concern – accounts prepared on that basis	"Emphasis of matter"	There will be more situations where the management and auditors will agree that the entity is either not able or not intending to continue as a going concern.

The two main decisions above are:

- Whether or not the going concern assumption is appropriate
- If it is, whether or not there is a material uncertainty

In making these decisions, the starting point will be what has management done:

- firstly to develop and implement mitigating actions and processes to ensure the survival of the entity, and;
- to obtain reliable and relevant information with which to assess the appropriateness of the going concern assumption.

## Contact us

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