

24 April 2020

Bill Edge
Chair
Financial Reporting Council

By email: FRCSecretariat@treasury.gov.au

Dear Bill

Input for FRC COVID-19 Working Group

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA) commend the FRC on the establishment of the COVID-19 Working Group to continuously monitor financial reporting and other reporting issues and consequent regulatory implications of COVID-19. We agree that the situation warrants a coordinated approach by key regulators and standard setters who can respond quickly. We appreciate the opportunity to provide input to the Working Group.

Financial reporting and audit perform a central role in informing markets and bringing integrity to business, and the wider economy, along with transparency and confidence. This is more important than ever in times of distress, like now, during the current pandemic. Professional accountants are committed to their roles as financial report preparers and auditors and in diligently meeting accounting and auditing and assurance standards; however, physical distancing and economic uncertainty pose major challenges in carrying out these roles. These challenges include the need to focus on other business priorities, gaining access to documents and premises, obtaining reliable information on asset values and future cash flows, limitations on IT capability, reduced capacity due to illness or isolation of staff, and the cancellation of secondments used to meet peak period demand.

Below we set out several matters where we believe the coordination of the FRC, and other members of the Working Group, could substantially aid in tackling these challenges.

Lodgement deadlines

Entities, their professional accountants and auditors are striving to meet upcoming lodgement deadlines, recognising the augmented importance of financial reporting, auditing and related engagements to economic integrity in these uncertain times. Having said that, we are aware that some entities and their auditors may be unable to meet lodgement deadlines due to the impact of COVID-19. In our view, it is important for regulators, which require lodgement of financial information or completion of an audit or assurance engagement, to streamline the application process for, and be accommodating in granting, extensions to lodgment deadlines due to COVID-19.



While we would not recommend blanket deferral as a first resort, this may also be appropriate in some circumstances. We note that the ATO has decided to apply automatic lodgement and payment deferrals for a range of taxpayers, so there is precedent if this becomes necessary in the future.

We are facilitating input on what is happening on the ground from our members to a multitude of federal and state regulators regarding these issues, in order that they may be able to consider and make appropriate arrangements. A general statement by the FRC that recognises the challenges involved in current and upcoming financial reporting periods and auditing would go a long way to assisting these discussions.

Standard setting

We commend the AASB and AUASB in their proactive and timely communication in response to COVID-19, in particular in developing the [AASB-AUASB Joint FAQ; *The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations*](#) (March 2020), which the AUASB is progressively supplementing with [Additional COVID-19 FAQs for Auditors](#). We acknowledge that responses to the current crisis are also being developed by international standard setters, the IASB and IAASB.

We are of the view that the existing set of standards underpinning Australia's financial reporting and auditing remain fit-for-purpose. Adherence to these standards is particularly important considering the insolvent trading relief afforded to directors. We would encourage the FRC to reinforce the need for maintaining financial reporting quality and audit quality during this time of uncertainty so that users receive relevant and reliable information and transparent disclosures. Additionally, this is critical as the financial report underpins the directors' solvency statement and the solvency test for the payment of dividends.

We encourage the FRC to continue to support the AASB and AUASB's focus on COVID-19 guidance by way of FAQs or other suitable materials. COVID-19 related issues for which further guidance would be helpful for preparers and auditors includes:

- AASB guidance for preparers on:
 - The going concern assessment (see below).
 - Impairment of assets, particularly goodwill.
 - Impairment of financial instruments, including application of the expected credit loss model.
 - Provisions for onerous contracts.
 - Asset valuation and challenges in determining fair value, including challenges specific to the public sector and private not-for-profit sector.
 - Revenue recognition and any other matters specific to the various forms of Government (federal, state and local) assistance (such as JobKeeper) to the private and not-for-profit sectors, and the assistance packages and concessions provided by the banks and other suppliers.

- AUASB guidance for auditors on:
 - Going concern, including when to use available modifications to the auditor's report, linkage to key audit matters and the impact of a Directors' qualified statement as to solvency.
 - Key audit matters, emphasis of matter paragraphs and modified audit opinions in relation to COVID-19, including when they may be appropriate and how they can be tailored to add value.
 - Changes in client's operations, including the impact on the control environment, controls testing and substantive audit procedures.
 - Risk assessment, particularly practical considerations in assessing risks arising from COVID-19 and the material consistency of that assessment with risks disclosed by the Directors in the other information, including the operating and financial review.
 - Group audits, including matters to be considered in assessing risk relating to components and challenges in obtaining evidence due to travel restrictions, remote working and the location of components.
 - Addressing the accounting challenges identified above.

Although not directly under the AASB's remit, the interplay between the going concern assessment and the impact of uncertainties on the directors' statement as to solvency and when they need to qualify that statement, needs consideration, particularly in the context of the recent provision of insolvent trading relief to directors. We note that regardless of the recent introduction of director "safe harbour" provisions whilst insolvent trading, directors remain under a statutory obligation to apply Australian Accounting Standards and ensure that financial statements are prepared on a true and fair basis.

Relatedly, we note the separate statutory obligations placed on auditors under section 308 of the Corporations Act to opine in their reports on both compliance with accounting standards and true and fair view, as well as an obligation to report to ASIC any suspected contraventions of the Corporations Act under section 311, which we understand would apply regardless of the relief provided to Directors for insolvent trading. We suggest that the AASB/AUASB work with ASIC and Treasury to ensure these issues are adequately addressed through appropriate guidance.

The Directors' disclosures in the operating and financial review (OFR) for listed entities are likely to be significantly affected by the known impacts and uncertainties arising from COVID-19, in order to provide sufficient information to assess an entity's operations, financial position, and business strategies and prospects for future financial years. Guidance from ASIC in this regard would be beneficial, to supplement that set out in RG 247, *Effective disclosure in an operating and financial review*. Further guidance from ASIC to update existing material provided for Directors relating to financial reporting, for example that included in INFO 203 *Impairment of non-financial assets: Materials for directors*, would also be welcomed. ASIC may wish to review its focus areas for 30 June reporting in the current context, and also to announce its focus areas as soon as possible to provide timely direction to preparers and auditors.



Additionally, we suggest that the AASB and the AUASB continue to collaborate and monitor the practical challenges faced by preparers and auditors because of COVID-19, as well as working with the IASB and IAASB respectively, to ensure adequate and appropriate guidance is developed and provided on a timely basis.

Other matters

Professional accountants value and appreciate the coordinating role of the FRC during these challenging times. As recommended, we will also continue to engage on the above and several other key matters directly with our members and the various bodies involved. This includes discussions regarding lodgement dates (as indicated above), liability and risk, and where there are specific impacts for financial reporting and audit arising from COVID-19 and the Government's response.

Should you have any queries regarding these matters, please do not hesitate to contact Amir Ghandar, Reporting and Assurance Leader, CA ANZ at amir.ghandar@charteredaccountantsanz.com, Claire Grayston, Policy Adviser – Audit & Assurance, CPA Australia at claire.grayston@cpaaustralia.com.au and/or Vicki Stylianou, Group Executive, Advocacy & Technical, IPA at vicki.stylianou@publicaccountants.org.au.

Yours sincerely



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