THE IMPACT OF COVID-19 ON FINANCIAL REPORTING

UK Companies House filing deadlines

On 11 March 2020, Companies House provided guidance at https://www.gov.uk/government/news/COVID-19-if-your-company-cannot-file-accounts-with-companies-house-on-time on what to do if a company is unable to file its accounts on time. The advice is to act before the filing deadline.

However, if the company is unable to file on time because it has been affected by the COVID-19, it may make an application to extend the period allowed for filing. If an application for an extension has not been made and the company's accounts are filed late, an automatic penalty will be applied.

To apply for an extension online you will need:

- The company number
- Information as to why you need more time
- Any documents that support the application.

On receipt of an application as a result of COVID-19, Companies House said it would grant a two-month extension automatically. A further month delay is the maximum allowed under current rules.

Where an application is successful, the entity must file their accounts before the new due date or a late filing penalty will be imposed.

It should be noted that an accepted application does not change the due dates for future accounts to be sent to Companies House. Therefore, this procedure is better than reducing the accounting reference date by one day, which does affect future periods.

Disclosing the effects of COVID-19 in the financial statements

Companies that have 2019 and 2020 reporting dates will need to consider how the pandemic affects their businesses and consider disclosing the impact in their annual reports.

Companies should carefully what disclosures they might need to include in their year-end accounts relating to these events. The extent of the risk and the degree to which it might crystallise depends on companies' specific business circumstances. Companies should consider whether to refer to the possible impact of COVID-19 on their business in their reporting of principal risks and uncertainties. Where mitigating actions can be taken, these should also be reported alongside the description of the risk itself. As well as possible inclusion within a company's disclosures of principal risks and uncertainties, the carrying value of assets and liabilities might also be affected with a need to perform additional impairment tests and to assess whether leases have become onerous.

Given the rapidly changing situation and Government Aid, required disclosures will change over time as more information about the commercial effects of the pandemic emerges. As a result, companies will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosure when preparing their year-end reports.

Where a company has a 31 December 2019 balance sheet date, the effects of COVID-19 would generally not be considered as a condition that existed at the reporting date, as the virus itself was only discovered in January 2020.

Where a company has a 31 January 2020 reporting date or subsequent, the effects of the virus could be an adjusting or a non-adjusting event.

Non-adjusting event

Where management concludes that the effect of the virus is a non-adjusting event, then no adjustments are made to the entity's assets or liabilities. Such a non-adjusting event would, however, need to be disclosed in the financial statements if it is considered material (ie, if non-disclosure would affect the ability of the user to make proper evaluations and/or decisions).

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, para 32.10 requires the entity to disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Adjusting event

Where the virus is considered to be an adjusting event (ie the virus was in existence at the balance sheet date), the directors need to consider the following issues:

- Which assets are likely to be impaired as a consequence of the virus? It might be the case that additional assets will need to be tested for impairment as a result of the virus because they are showing indicators of impairment. Management should consider whether non-financial assets such as property, plant and equipment, intangible assets and goodwill are showing indications of impairment.
- Does the entity need to make additional provisions? For example, have contracts become onerous as a result of the virus?
- Does the entity need to consider writing down financial assets, for example recognising specific bad debts?
- Have any fair values that have been recognised in the financial statements been appropriately determined?
- Are employee benefits affected, such as defined benefit pension schemes and remuneration packages?
- Is the entity a going concern? The pandemic may give rise to the going concern basis of accounting no longer being appropriate hence, under FRS 102, a basis other than the going concern basis of accounting may need to be adopted. Keep in mind that the minimum period of assessment for going concern under UK GAAP is 12 months from the date of approval of the financial statements; not 12 months from the balance sheet date. Where there are material uncertainties related to going concern as a result of the virus, but management concludes the going concern basis of accounting is appropriate, additional disclosures will need to be made. (Small companies choosing to report under FRS 102, Section 1A *Small Entities* are encouraged to make such disclosures).

- If the entity has received government assistance, how is this to be accounted for in the financial statements? If government assistance meets the definition of a 'government grant' then it will need to be accounted for under the provisions of FRS 102, Section 24 *Government Grants*. For clarity, the definition of 'government grant' per the Glossary to FRS 102 is:

Assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the ***operating activities*** *of the entity. Government refers to government, government agencies and similar bodies whether local, national or international.*

Guidance for Auditors

The Financial Reporting Council published guidance for auditors last week on the issues they are likely to encounter with the pandemic at https://www.frc.org.uk/news/march-2020-(1)/frc-guidance-for-auditors-arising-from-the-coronav .

This Guidance states that auditors will need to consider the impact of COVID-19 on:

- How they gather sufficient, appropriate audit evidence, recognising that the planned audit approach may need to change and alternative procedures developed;
- How the group auditor proposes to review the work of component auditors;
- The auditor's assessment of going concern and the prospects of an audited company;
- The adequacy of disclosures made by management about the impact of COVID-19 on the company;
- The need for the auditor to reassess key aspects of their audit as a result of the fast-changing situation, which may require management to provide further evidence.

For further advice on managing Covid-19 in the workplace, please contact Mike Marcus on mmarcus@parkerrussell.co.uk or on 0207 3787500.

Please know that Parker Russell International has a business contingency plan and we will do everything we can to support our clients during this uncertain period, please do not hesitate to info@parkerrussell.co.uk if you have any concerns or queries regarding the above or anything to do with the COVID-19 outbreak. We are here for you during this difficult time.

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