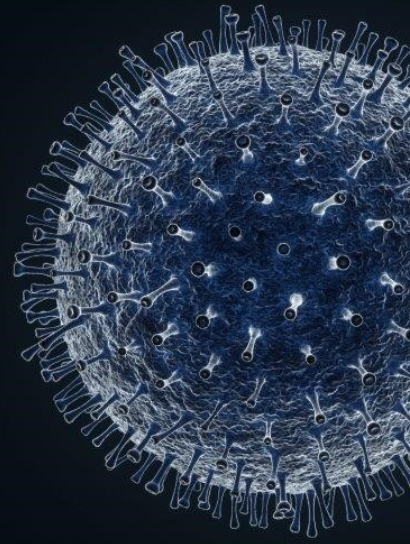


Accounting and auditing implications

Implications of the Coronavirus



When addressing the Corona crisis, the most important aspects are ensuring the business continuity of the company. In the course of the preparation of the 2019 annual financial statements, there are urgent issues around the going-concern assumptions as well as the presentation of events after the balance sheet date. The crisis also has an impact on the activities as auditors and their reporting. On top of this, there is a marked increase in the risk for fraudulent acts at many companies.

Assuring the business continuity of the company

Many economists are forecasting a recession, also in Switzerland. Contrary to what happened during the financial crisis in 2008, the trouble now is that the “real” economy is also being hit hard. This is why business continuity management takes center stage. The situation has to be assessed continuously and realistically. In view of the great uncertainties, it is best to think in scenarios.

The **implications** are just as numerous as they are individual. Employee health has first priority. From a financial point of view, liquidity planning is on top of the list. But also the question whether suppliers will be able to deliver, and if yes, if there will be a delay should be analyzed carefully. Also what this entails for the production and/or service delivery. Internal and external communication are extremely important in order to meet any uncertainties with the most transparency possible.

Implications for Accounting

In consideration of the situation on hand, one should also ask whether and to what extent the **Corona crisis impacts your accounting** and whether these impacts differ depending on which accounting standard you apply. Another question is whether the annual financial statements for the business year ending on 31 December 2019 is actually

affected. From the viewpoint of the accounting, what is decisive is whether the condition for an **event on the balance sheet date** (i.e. 31.12.2019) already existed then or not. If a condition exists on or before the balance sheet date (thus making it a so-called adjusting event), the 2019 financial statement have to be adjusted. If the condition did not exist until the new year (a so-called non-adjusting event), the events may have to be disclosed in the notes to the financial statements. In regard to the Corona crisis, the worldwide occurrence of the virus only took place in January 2020. Both accounting under CO and Swiss GAAP FER as well as IFRS require the disclosure of significant events after the balance sheet date in the notes. In doing so, the company must disclose the type of results as well as an estimate of the financial effect. Beyond that, it must also inform the reader on its forecast in the management report.

Our recommendations to the Board of Directors:
Take special care in the presentation of events that occurred after the balance sheet date in the notes and in the management report when preparing the annual report.

All of the accounting principles assume that the company can continue over the foreseeable period (the so-called going concern). When preparing the 2019 annual financial statements, you should take into consideration at least the period up to 31.12.2020. Under normal circumstances, it was possible to **assume the going concern** for most companies without putting too much effort into imagining this. In view of the extraordinary circumstances, the Board of Directors’ responsibility to determine the company’s ability to continue as a going concern is of utmost importance. Should there be significant uncertainties, this should be explained in the notes to the annual financial statements. In the extreme case that the going-concern cannot be confirmed, the annual financial statements have to be prepared on values of liquidation basis if the company uses CO or Swiss GAAP FER as accounting standards.

Our recommendation to the Board of Directors:
Be sure to carefully determine your company's ability to continue as a going concern.

If using **IFRS accounting standards**, there are some **special considerations** you will have to take into account: In view of the volatile markets, it is difficult to determine fair values and to prove the recoverability of tax assets. Whether assets are impaired is an especially complex question. And finally, a lower valuation or impairment expenses could impact your company's leveraging, possibly making it harder to be able to service loans.

The expectations regarding the disclosure of events that occurred after the balance sheet date in the 2019 annual financial statements are most likely higher for this accounting standard.

If the going concern is no longer given for the company, it would have to use the general IFRS valuation principles, taking into consideration the special rules applicable to assets held for sale, to impairments and to provisions. Also, these aspects should be given special consideration when preparing the interim financial statements in the coming months.

Implication for Auditing

The global spread of the Coronavirus has also impacted the work of us **auditors**, especially in relation to three specific areas:

1. In the case of international companies, it has become **difficult to finalize the audits of the 2019 financial statements** because of travel restrictions, for example. Auditors had to adjust their audit plans continuously and communicate intensively with all parties involved.
2. In addition to the usual work, they also had to audit the **disclosures** mentioned above **on the events that occurred after the balance sheet date** and on the **going-concern assumptions** – both of these matters involve an immense amount of professional judgment and uncertainties, and are accordingly difficult to audit.
3. Finally, the implications of the Corona crisis could also affect **the auditor's report**. At publicly held companies, the auditor may also be confronted with questions regarding key audit matters. Moreover,

auditors also had to carefully assess whether the audit firm's report should also include information on the events that occurred after the balance sheet date or on significant uncertainties in regard to the going concern (especially if this information had been disclosed insufficiently or inappropriately in the annual or consolidated financial statements).

Our recommendation to the Board of Directors:
As a member of the Board of Directors, but especially also as a member of the Audit Committee, be sure to pay close attention to these aspects whilst finalizing the 2019 annual financial statements, and stay in close contact with the auditors.

Risks of fraud

Unfortunately, these difficult times are also a bonanza for those involved in criminal activities. In this regard, companies should take a closer look at their **estimates of fraud risks**. The risk of cyber-attacks remains high, while the risk of phishing attacks has risen everywhere due to employees working from home. These risks can be mitigated by implementing good IT countermeasures. Nonetheless, the biggest source of risk lies in human behavior: Make sure that your company is aware of such dangers. Be sure to support your employees in these trying times not solely in professional aspects.

Our recommendation to the Board of Directors:
Mandate a review of the estimated risk regarding fraudulent acts as well as of the measures taken to mitigate these.

Be aware of the importance of your company's corporate culture and the role it plays in human misconduct.

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