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Accounting and Audit Implications of **COVID-19**

Audit / Tax / Advisory

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Introduction

The recent COVID-19 pandemic that led to the stock market crash and country-wide lockdown in Malaysia has impacted the preparation of financial statements in significant ways. What are these implications?

For clarity and easy reading, we have tabulated the important dates involved as well as their impact on the various items in financial statements.

Please contact Crowe Malaysia if you wish to seek clarification on any of these issues.

Important Dates

Significant Events

30.1.20

World Health Organization (WHO) declaration of COVID-19 as a Public Health Emergency of International Concern which triggered audit issues relating to subsequent events and going concern



20.2.20

Global Stock Market Crash resulting in significant drop in share prices



**18.3.20
onwards**

Movement Control Order (MCO) implemented in Malaysia resulting in contraction of revenue and other consequent issues



Important Dates Significant Events	18.3.20								20.2.20	30.1.20
	MCO implemented ¹								GMSC ²	WHO declaration ³
Items affected	PPE	Receivables	Inventory	Bank & cash	Loans	Capital	Revenue	Other income statement items	Investments	Subsequent events
Phenomenon	Assets underutilized or idle	Longer collection period	Cannot sell / Obsolescence	Cash depletion	Breach of loan covenants	Erosion of capital	Significant drop in revenue	Significant drop in business volume resulting in over-capacity	Drop in market value	Drastic change in business environment
Effect on Financial Statements	Write-down of assets	Bad debts	Write-down of slow-moving inventories	Going concern issue	Default in loan repayments	Going concern issue	Business sustainability	Provision for onerous contracts, write-off of excess overheads, etc	Impairment	Adjustments to financial statements and disclosures
Audit Issue	Assess recoverable value of PPE	Assess amount of bad debts and allowance for credit losses	Assess amount of slow-moving inventories	Assess ability of Company to continue its operations as a going concern	Reclassify defaulted loans to current liabilities. Assess if Company has going concern issue	Assess ability of Company to continue its operations as a going concern	Assess ability of Company to continue its operations as a going concern	Assess adequacy of provisions and write-offs	Write-down to market value	To assess whether the subsequent event is an adjusting or non-adjusting event

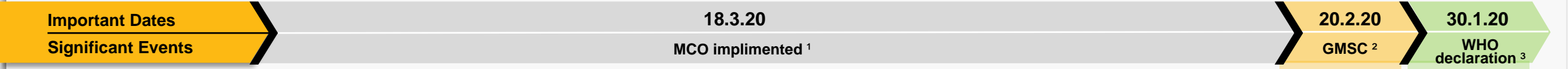
¹ Movement Control Order (MCO) implemented in Malaysia resulting in contraction of revenue and other consequent issues

² Global Stock Market Crash resulting in significant drop in share prices

³ World Health Organization (WHO) declaration of COVID-19 as a Public Health Emergency of International Concern which triggered audit issues relating to subsequent events and going concern

The financial statement items above will impact which industries the most?
 To answer this, we set out below our views on how various industries in Malaysia will be affected.

Impact on Industries



Items affected	PPE	Receivable	Inventory	Bank & cash	Loans	Capital	Revenue	Other income statement items	Investments	Subsequent events
Agriculture		Minimal Impact	Significant Impact				Significant Impact		Significant Impact	Minimal Impact
Banks & Financial Institutions	Minimal Impact	Significant Impact	Minimal Impact						Significant Impact	
Construction			Significant Impact				Significant Impact	Significant Impact	Significant Impact	
Education	Minimal Impact	Minimal Impact	Minimal Impact	Minimal Impact	Minimal Impact	Minimal Impact	Minimal Impact	Minimal Impact	Significant Impact	Minimal Impact
Food & Beverage				Significant Impact			Significant Impact	Significant Impact	Significant Impact	Significant Impact
Healthcare	Minimal Impact	Minimal Impact	Minimal Impact						Significant Impact	Minimal Impact
Hotels		Minimal Impact	Minimal Impact	Significant Impact	Significant Impact	Significant Impact	Significant Impact		Significant Impact	Significant Impact
Investment	Minimal Impact		Minimal Impact	Minimal Impact		Minimal Impact		Minimal Impact	Significant Impact	Minimal Impact
Manufacturing									Significant Impact	
Oil & Gas					Significant Impact	Significant Impact	Significant Impact		Significant Impact	
Property Development	Minimal Impact							Significant Impact	Significant Impact	
Services	Minimal Impact		Minimal Impact	Significant Impact					Significant Impact	Significant Impact
Trading	Minimal Impact								Significant Impact	
Travel & Leisure		Minimal Impact	Minimal Impact	Significant Impact	Significant Impact	Significant Impact	Significant Impact		Significant Impact	Significant Impact

Minimal Impact (Green box) Moderate Impact (Grey box) Significant Impact (Red box)

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The COVID-19 pandemic will affect financial statements in many significant ways. We detail below these issues and the procedures that auditors need to undertake to assess their veracity:

a) Impairment of non-financial assets (e.g. buildings and equipment)

To identify indications of impairment, changes in key drivers and assumptions used in estimating the recoverable amounts of the productive assets.

b) Fair value of unquoted equity instruments

To update key drivers and assumptions used in the valuation techniques to reflect current market conditions at the reporting date.

c) Receivables

Greater judgment is needed in assessing the expected credit loss.

d) Inventories

To identify changes in net realisable values due to the decrease in selling prices or due to obsolescence.

e) Fixed production overheads

A higher amount of unallocated fixed overheads has to be expensed off due to abnormal production capacity / low production volume.

f) Provision for onerous contracts

A provision is required when unavoidable costs of meeting the obligations exceed the benefits expected to be received under the contract.

g) Lease contracts

To identify and account for any lease rent concessions.

h) Going concern

Material uncertainties may cast significant doubt on the ability of the Company to continue as a going concern.

i) Revenue contracts

Unprecedented changes in the business environment have resulted in variation to certain contracts entered into by companies. These changes include penalties or refunds for failure to fulfil contract obligations, changes in enforceability of contracts and contract modifications. The impact of these changes need to be assessed, quantified or disclosed.

j) Government support

To determine the appropriate accounting treatment of government support e.g. Economic Stimulus Package is a government grant that should be accounted for under MFRS 120 'Accounting for Government Grants and Disclosure of Government Assistance'.

k) Foreign exchange transactions

To consider the effects of significant fluctuations in foreign exchange rates on the operations of the Company and the effectiveness of hedge accounting.

l) Breach of loan covenants

To consider how a breach of loan covenant may affect the timing of repayment of the defaulted loan (e.g. the loan becomes repayable on demand) and how it affects the classification of the related liabilities at the reporting date. This also affects the assessment of the company's ability to continue to operate as a going concern.

m) Events after the reporting date

To carefully evaluate whether information on COVID-19 that becomes available after the reporting date is an adjusting or non-adjusting event for accounting purposes. Financial statements have to be updated if the event is a significant adjusting event; otherwise, a disclosure is required.

n) Disclosures in financial statements

More comprehensive disclosure is required of significant accounting judgments, estimates and assumptions used in preparing the financial statements that could result in material adjustments to the carrying amount of assets and liabilities.

o) Impact on auditors' report

To evaluate whether the impact of COVID-19 is a Key Audit Matter. Depending on resolution of accounting and auditing matters due to COVID-19, possibilities exist as to whether it is necessary for the issuance of a modified opinion or inclusion of a separate section under 'Material Uncertainty Related to Going Concern (MUGC)' in the auditor's report.



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About Crowe Malaysia PLT

Crowe Malaysia PLT is the 5th largest accounting firm in Malaysia and an independent member of Crowe Global. The firm in Malaysia has 14 offices, employs over 1,300 staff, serves mid-to-large companies that are privately-owned, publicly-listed and multinational entities, and is registered with the Audit Oversight Board in Malaysia and the Public Company Accounting Oversight Board in the US.

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