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Thematic Review

Reporting on COVID Impact

January 2023

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1.0 Executive Summary

1.1 Overview

The coronavirus (COVID 19) pandemic has created unprecedented challenges for companies reporting their financial results for those annual reports with financial year starting on or after 1 January 2020. The pandemic has mainly affected Public Interest Entities (PIEs) in sectors such as leisure and hotels and transport. The outbreak of the coronavirus has impacted on businesses and has a corporate reporting effect on their financial statements and directors' reports.

PIEs have to consider regulatory updates and monitor the impact of COVID 19 on their financial reporting to ensure that the disclosures in annual reports are relevant and useful to users of financial statements, taking into consideration the impact of the Covid 19 pandemic.

To ensure quality reporting of annual reports, the Financial Reporting Council (FRC) undertakes the review of Public Interest Entities as part of its monitoring activities, in accordance with Section 76(1) of the Financial Reporting Act ("FRA''). FRC has carried out the thematic review on the impact of COVID 19 pandemic to help companies improve the quality of their corporate reporting in relation to International Financial Reporting Standards (IFRSs) taking into consideration the impact of COVID 19.

The thematic review was performed on the following themes:

- Going concern;
- Impairment and fair valuation; and
- Subsequent events.

The thematic review looked at the annual reports of 167 PIEs across a number of industries and year ends.

This report summarises the key findings of FRC's review of the financial reporting effects of Covid 19. Also, it draws out the features of better reporting and disclosures and highlights areas for improvement in relation to COVID 19.

Key audiences for this report are preparers and auditors of corporate reports and investors.

Section 3 of this report analyses each of the above areas in further details.

1.2 Why reporting on impact of COVID 19 is important

PIEs have to ensure that annual reports provide investors with useful and meaningful information on the impact on current and future performance of changing and uncertain economic and market conditions in light of COVID 19.

There are multiple financial reporting implications to be considered by preparers of financial statements for the purposes of reporting in the short and potentially medium term. The scope of disclosures to be provided in financial statements depends on business specifics, industries and markets on which companies operate.

Although annual reports provide sufficient information to enable individuals to understand the impact COVID 19 has had on their performance, position and future prospects based on IFRSs requirements, some financial statements would benefit from 'more extensive disclosures'.

The responsibility for preparing and overseeing financial reporting is with management, with oversight from Those Charged with Governance. They will have to exercise significant judgments in the current business environment.

The extent and duration of the COVID 19 pandemic nor its consequences for the global economy cannot be predicted. It is, however, reasonable for investors to expect companies to be able to articulate their expectations of the possible impacts on their specific businesses in different scenarios.

Under COVID 19 conditions, the circumstances of companies and the environment in which they operate can change significantly and this could significantly affect financial reporting considerations.

It is important that PIEs make useful and meaningful disclosures about business impacts and potential uncertainties in the light of COVID 19. In this regard, companies have to disclose key assumptions, risks, the drivers of results, management strategies and future prospects.

The assumptions underlying estimates and assessments for financial reporting purposes have to be reasonable and supportable. Assumptions have to be realistic, and not overly optimistic or pessimistic.

Also, some PIEs may complement the financial statements and tell the story of how the entities' businesses are impacted by the COVID 19 pandemic.

Regulation is an increasingly important driver of promoting quality in corporate reporting, but frameworks such as guidance from regulators such as Financial Reporting Act, Companies Division, Financial Services Commission and Stock Exchange of Mauritius would also assist driving up reporting quality level.

Based on an annual report review plan which is approved by the Financial Reporting Monitoring Panel (FRMP) established by the Council, FRC has carried out the thematic review on the impact of COVID 19 pandemic.

The thematic review exercise comprised review of 167 PIEs to evaluate the challenges in financial reporting with respect to the focused areas and the level of quality reporting of the annual reports' disclosures. Also, these PIEs may take measures in respect to the topics where improvements to quality reporting are needed, in light of COVID 19. This would enable users to understand the impact that COVID 19 has had on the companies' performance, position and prospects.

1.3 FRC's key messages

From the thematic reviews, it is observed that some PIEs had provided the best practice disclosures with respect to the focused areas, that are going concern, impairment & valuation and subsequent events. This would provide important and useful information to users of annual financial statements.

Whilst progress made by PIEs may differ, there are a number of key areas where more should be done by the PIEs for quality reporting. These include the following areas, each of which is explained further in section 3 of this report.

1.3.1 Going concern

PIEs are encouraged to give more clearly explanations on the possibility of material uncertainties that may dispute the companies' going concern status.

Given the uncertainty surrounding COVID 19, Management should consider the factors that might affect going concern assessments.

- Level of drawn and undrawn finance facilities in place.
- Covenants that were in place and expected to be breached.

With respect to the reporting on going concern assessments, companies have to improve information on the different going concern scenarios including the key COVID 19 assumptions within each forecast which would have an impact on the going concern conclusions.

FRC suggests enhancing the disclosures on the structural changes by PIEs as this would enable them to continue to operate as a going concern.

The thematic review shows that the PIEs need to improve their expanded disclosures on liquidity risk in light of the impact of the COVID 19.

1.3.2 Impairment & fair valuation

FRC encourage PIEs to provide more proper disclosures on impairment and fair valuation in light of the COVID 19 pandemic in respect of:

- Changes in the budgets and plans due to the effects of the COVID 19 so as to properly reflect the aftermath of this event on PIEs' activities.
- Discount rates explaining the reassessment of key inputs, showing the link between the increased risks and COVID 19.
- Incorporation of COVID 19 risks into the cash flow projections, discount rates and long-term growth rates.
- Information on the different scenarios in respect of the expected cash flow approaches which is in line with the COVID 19 pandemic.
- Widening of the reasonably possible changes in key assumptions, factoring in reductions in sales, operating profit and higher increases to the discount rates.
- Sensitivity values consistent with the analyses included in the viability statements and going concern assessments.
- Changes in judgements used in determining the fair values of assets measured in accordance with IFRS 9.

1.3.3 Subsequent events

In this area, FRC suggests disclosures in which improvement is needed:

- Information on the most likely impact of COVID 19 outbreak on the companies' operations, strategies and business models after the reporting dates.
- Explanations with respect to the forecast of future income and cash flows and the impact on valuation and recoverable amounts of assets in light of the COVID 19 crisis.
- The forecast of future income and cash flows and description of the scenarios where the recoverable amounts of assets are achievable which are in line with the COVID 19 pandemic.
- The mitigating measures in response of the COVID 19 pandemic made under the 'Subsequent Events' notes.
- Details on information with respect to subsequent events which have to be linked to other areas of financial reporting that include the COVID 19 related consequences.

1.4 Summary of findings

FRC had carried out the thematic review on the impact of COVID 19 of 167 PIEs. This part of the report summarises the findings on the reporting of impact of COVID 19 for the following areas of the thematic review. FRC's further observations are set out in Section 3.

1.4.1 Going Concern

The table sets below the areas that were reviewed under the topic of going concern:

Areas under the topic of the going concern	Summary of findings
Material uncertainties that may cast doubt on the company's going concern status	27% had explained the possibility of material uncertainties that may dispute the companies' going concern status.
Period for the going concern assessment	47% of the 167 entities had mentioned the periods covered for the going concern assessments. The length of period is generally of about 12 months for the concerned companies.
Events or conditions that may cast doubt on going concern assumption	Given the uncertainty surrounding COVID 19, Management might consider the factors that might affect going concern assessments. The key findings are as follows: • 41% did report on the events or conditions that may cast doubt on going concern assumptions (e.g., net current situation, negative cash flows, operating loss and revenue deficit). • 14% disclosed the level of drawn and undrawn finance facilities in place. • 7% of the PIEs had disclosed the covenants that were in place and expected to be breached.
Scenario modelling (the current economic scenario, circumstances are changing rapidly and management is therefore required to update its going concern assessment to reflect the changed environment. The circumstances in which the entity will prepare financial statements on a going concern basis will vary widely; from a	With respect to the factors including the scenario modelling affecting the PIEs' going concern assessments, the following were noted: • 19% of the 167 entities had explained the different going concern scenarios. In some cases, these going concern scenarios included information on the key COVID 19 assumptions within each forecast which had impacted the going concern conclusions.

scenario of profitability and adequate liquidity to 'close call' situations (IFRS Foundation - Education material)	• 12% provided information on the scenarios modelled in the light the PIEs' reliance upon government support to conclude on the going concern assessments.
Management risk mitigation strategies	The following were noted with respect to management risk mitigation strategies: • 38% of the 167 PIEs had identified and explained any mitigating actions the boards could take to improve liquidity. • 32% of the PIEs had disclosed their management plans for future actions. • 8% of the entities had carried out structural changes in order to continue to operate as a going concern. • 31% of the 167 PIEs had renegotiated or amended their lending arrangements.
Financial support obtained from shareholders and government support to the PIE	Key findings in respect to financial support, were as follows: • 16% of the entities received financial support from their parent companies and/or shareholders. • 29% of the entities had government support.
Expanded disclosures relating to COVID 19 on liquidity risk	18% of the PIES had provided expanded disclosures on liquidity risk in light of the impact of the COVID 19.
Reporting of emphasis of matter paragraph as per ISA 706	7% of the auditors of the PIEs included emphasis of matter paragraphs, as per ISA 706.

1.4.2 Impairment and fair valuation

The table sets below the areas that were reviewed with regard to impairment and fair valuation:

Areas under the topic of impairment and fair valuation	Summary of findings
Impairment	
Recognition of impairment losses as a result of COVID 19 pandemic	Out of the entities that had non-financial assets, 20% recognised the impairment losses as a result of the COVID 19 pandemic.
Disclosures regarding increases in impairment losses and changes in accounting judgments occurred due to the COVID 19 pandemic	• 28% of the entities had experienced increases in impairment losses due to the COVID 19 pandemic. • 15% reported that there were changes in accounting judgments that had a material impact on the financial statements which was due to the COVID 19 pandemic.
Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives and sensitivity values which were updated in light of the COVID 19 pandemic	• 12% of the entities experienced some changes in budgets and plans due to the effects of the COVID 19. • 5% of the entities disclosed with regard to the discount rates that explained the reassessments of key inputs, showing the link between the increased risks and COVID 19. • 11% of the entities provided disclosures about the incorporation of COVID 19 risks into their cash flow projections, discount rates and long-term growth rates. • 8% of the entities included information in respect of the different scenarios which used the expected cash flow approaches in line with the COVID 19 pandemic. • 14% of the PIEs widened the reasonably possible changes in key assumptions, factoring in reductions in sales, operating profit and higher increases to the discount rates. • 9% of the concerned entities reported on the sensitivity values consistent with the analyses included in the viability statements and going concern assessments.

Disclosures in respect of the events and circumstances that led to the impairment of non-financial assets	Out of the entities that had non-financial assets, 6% disclosed these events and circumstances that led to the impairment losses attributable to the effects of the pandemic. In this regard, some entities had made recovery plans and had taken into consideration the actions that would resolve the impairment losses.
Fair valuation	
Impact of COVID 19 on the fair valuation of PPE, investment properties and financial assets	With respect to the sample of PIEs that had financial assets valued at fair value, it is noted that 38% of these PIEs were affected as a result of the COVID 19 pandemic. In this regard, changes in the fair values of the PIEs' assets were mainly caused by market volatility and losses incurred by some foreign branches of the PIEs, as a result of the pandemic.
Key considerations in respect of assumptions and inputs used in determining fair value, including the sensitivities of the fair value measurements	• Out of 167 annual reports, 7% disclosed sensitivities regarding COVID 19 related assumptions. • 10% disclosed the effects of uncertainties on the discount rates and consistencies with cash flow adjustments. • 8% widened the reasonably possible changes for key assumptions in their sensitivity analysis due to increased uncertainties. • 10% disclosed the changes in the assumptions applied in respect of the valuation techniques in light of the COVID 19. • 22% reported on the considerable changes in judgements used in determining the fair values of assets measured in accordance with IFRS 9 *Financial Instruments*.
Impact on the audit report and audit opinion with respect to the fair valuation of non-financial assets	The auditor of one company had included an emphasis of matter paragraph in relation to material valuation uncertainty. In this case, this PIE had provided a detailed explanation of this material valuation uncertainty in the notes to the financial statements.
Disclosures of credit risk policies and practices in light of COVID 19 pandemic	• 27% of the PIEs reported on the changes to their credit risk management in response to COVID 19. • 19% discussed on the impact of COVID 19 on concentration of credit risk.

	• 22% of the entities disclosed such information in their annual reports. These entities had to recalibrate their forward-looking assumptions and adjust them to take into consideration the effects of COVID 19. This thus reflects the macroeconomic conditions prevailing at that time. • The management of 17% of the entities made significant changes to the impairment figures and models due to the COVID 19 outbreak. Most of the entities out of the 17% decided to take on prudent approaches and increased the allowances regarding ECL and created COVID 19 allowances.
COVID 19 related matter on expected credit losses reported as Key Audit Matter (KAM)	17% of the auditor's reports had Key Audit Matter paragraphs drawing attention to the impact of COVID 19 on expected credit losses of financial assets. Of note: Out of the 167 PIES, some PIEs may include financial assets. Out of these PIEs with financial assets, some may recognise expected credit losses under KAM, due to the impact of COVID 19.

1.4.3 Subsequent events

The table sets below the areas that were reviewed under the topic of subsequent events:

Areas under the topic of subsequent events	Summary of findings
Management's consideration of the assessment of the subsequent events	27% of the PIEs reported on subsequent events to the impact of the COVID 19 pandemic. Some PIEs considered that this situation was still evolving and it was difficult to quantify the effects of the pandemic on business activities given the level of uncertainties relating to the deterioration in macro-economic forecasts.
Entity's consideration of the likely impact of the pandemic on the company's liquidity, going concern and capital resources subsequent to its reporting period	33% of the entities provided information on subsequent events relevant to the liquidity, going concern and capital resources.
Information on the most likely impact of COVID 19 outbreak on the company's operations, strategy and business model after the reporting date	Out of the 167 annual reports reviewed, 21% included information on the changes made in respect to operations, strategies and business models in light with the COVID 19 pandemic.

Disclosures with respect to the forecast of future income and cash flows and its impact on valuation and recoverable amount of assets in light of the COVID 19 crisis	Out of 167 PIEs, 11% disclosed information on the forecasts of future income and cash flows (i.e., by assigning cash flow scenarios), which were used to estimate the recoverable amounts of assets in light of the COVID 19 crisis.
Disclosures on the mitigating measures in response of the COVID 19 pandemic made under the 'Subsequent Events' note	13% of the entities had provided disclosures on the mitigating measures taken in respect to the impact of COVID 19 under the 'Subsequent Events' notes.

2.0 Background of this report

2.1 Background

Investors and other users of annual reports rely on information disclosed in the annual reports on which they base their economic decisions. They expect that the information disclosed gives a true and fair view of entities' performance, that they have been prepared in accordance with applicable law, and that the annual reports of companies are fair, balanced and understandable.

Relevant and timely information that companies present to the market is fundamental to the functioning of the capital market, and to ensuring that Mauritius remains an attractive and competitive destination for international investment.

The FRC has a strategic objective to promote the provision of high-quality reporting of financial and non-financial information by public interest entities. While progress made by PIEs may differ, all PIEs are investing significantly in providing quality corporate reporting.

Recognising that quality reporting is not yet consistently and sufficiently high in this changing environment, the aim of FRC is to promote continuous improvement through a range of means, including thematic reviews which make comparison among PIEs with a view to identifying both good practice and areas of common weakness.

2.2 Objectives of this thematic review

The COVID 19 pandemic has undoubtedly caused great disturbances in various industries and their day-to-day running. While some industries got an exponential growth due to the ongoing situations, others suffered and could barely go by and had to take active measures to stay on the market. It is true that the activities of some entities were not affected majorly by the pandemic but this however applies to a small population.

The objective of this thematic review is to gain an understanding of the reporting made by PIEs on the impact of the COVID 19 pandemic on their activities and how the effect of this hard situation is being managed by them. By comparing and contrasting actions by different PIEs, FRC aims to identify and report areas of good practice and areas of common weakness which may assist FRC in having policies to enhance quality corporate reporting.

2.3 Scope of this thematic review

COVID 19 has an impact on the operations of the Public Interest Entities. However, the extent of the impact of COVID 19 is more significant for companies in certain sectors such as hotels, leisure and travel.

For the purpose of the thematic review, which consisted of a limited scope desktop review, FRC selected randomly the annual reports of 167 PIEs. With respect to these 167 entities, the tables below show information on the annual reports of the PIEs:

a) Categories of PIEs

Categories of PIEs	Number of PIEs
DEM	35
OL	36
Other PIEs	96
Total	167

b) PIEs operating in sectors affected by the COVID 19 pandemic

In order to select the annual reports of PIEs for the thematic review, FRC had focus on annual reports of PIEs who are in the financial services, leisure and hotels, commerce (more specifically restaurants, automobile), property development, textile and manufacturing sectors, which are the sectors most affected the COVID 19 pandemic.

FRC had identified 167 PIEs which operate in the above-mentioned sectors as described in the table below.

Sectors	Number of PIEs
Leisure & Hotels	30
Property Development	8
Investments	24
Commerce	22
Textile	1
BIF	52
Transport	2
Industry	17
Sugar	5
Textile	1
Manufacturing	1
Others	4
Total	**167**

c) Year ends of annual reports

FRC had taken into consideration the year ends of PIEs operating in the sectors most affected by the COVID 19 pandemic for the purpose of the review. Details of the PIEs with year ends, are provided in the table below:

Year Ends	Number of PIEs
30 June 2020	1
30 September 2020	1
31 December 2020	46
31 March 2021	5
30 June 2021	103
30 July 2021	1
30 September 2021	3
31 December 2021	7
Total	167

2.4 Methodology adopted

As the COVID 19 pandemic continues to evolve within most economies globally, its unprecedented consequences have taken a serious toll on the Mauritian economy, hence impacting the business operations of many companies.

For the purpose of the thematic review, FRC had selected the annual reports of 167 PIEs with their corresponding year ends on a risk-based approach. In this regard, the following PIEs comprised:

- PIEs included in the FRC's portfolio review (that is listed entities, insurance companies, banks and FSC regulated entities);
- the PIEs operating in sectors which are most affected by the outbreak of COVID 19; and
- PIEs with year ends where the pandemic was most impactful.

3.0 Thematic review findings

Companies have been severely impacted by the outbreak of the COVID 19 pandemic since January 2021. Hence, FRC had decided to conduct the thematic reviews on the impact of COVID 19, which caters the following areas:

- Going concern
- Impairment and fair valuation
- Subsequent events

This part of the report summarises the general reporting, key findings for each area, areas of best practice and areas of improvement.

3.1 General Reporting on COVID 19 Impact

COVID 19 has an impact on all companies. Some businesses may profit from the virus outbreak (for example, manufacturers of face masks, antibacterial cleaning products, toilet paper, etc.) and for others, the virus outbreak may have a neutral impact). In such cases, there are unlikely to be financial reporting consequences for these entities.

However, many other entities may see a significant reduction in profits for the foreseeable future. The extent of the impact of COVID 19 is more significant for companies in certain sectors such as retail, hospitality, and travel that are more significantly affected by social distancing rules and potential longer-term changes in consumer behaviour.

For the purpose of the thematic review, FRC selected 167 PIES for periods ending on or after 31 January 2020 (see section 2.3 above). In this regard, the outbreak of the coronavirus had reflected in the financial statements for reporting dates ending on or after 31 January 2020.

In reviewing the 167 financial statements, FRC considered interalia the requirements of IAS 1 *Presentation of Financial Statements*, *Presentation of Financial Statements*, IAS 10 *Events after the Reporting Period* and IAS 36 *Impairment of Assets* and IFRS 9 *Financial Instruments* and IFRS 13 *Fair value measurement* in light of COVID 19. Also, FRC had to monitor the annual reports of the 167 PIEs which would provide information on the impact of COVID 19 on corporate reporting to users of financial statements. The companies are expected to provide sufficiently detailed quantitative and qualitative disclosures about any developments subsequent to the reporting dates.

3.2 Specific Reporting on COVID 19 Impact

With respect to the focused areas, the following findings were noted at sections 3.2.1 to 3.2.3 of this report:

- Going concern
- Impairment and fair valuation
- Subsequent events

* A disclaimer note – The report did not include FRC's observations of those PIEs which did not report on the criteria provided under the above focused areas.

3.2.1 Going concern

The pandemic outbreak has significantly impacted many businesses and their abilities to continue operating as a going concern. Financial statements should generally be prepared on a going concern basis, unless this would not be appropriate because the companies are intended to be wound up or there are no realistic alternatives to do so. Going concern is a basic accounting principle as well as one of the fundamental assumptions under the International Financial Reporting Standards.

Due to the wide-ranging impact of the pandemic on the global economy, many businesses are facing material uncertainties regarding their abilities to continue as a going concern. Also, the extent of the impact of COVID 19 is more significant for companies in certain sectors such as hotels, leisure and travel and the degree of consideration by the entities in their going concern assessments will depend on their own facts and circumstances.

A. Findings on going concern assessment

In view of the COVID 19 pandemic, the following were analysed under the topic of going concern:

a) Assessment of the appropriateness of the use of the going concern basis

Paragraph 25 of IAS *1 Presentation of Financial Statements* states that when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern.

An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

64% of the 167 entities considered the existing and anticipated effects of the COVID 19 on the entities' activities in the assessments of the adequateness of the use of the going concern basis.

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b) Material uncertainties that may cast doubt on the company's going concern status

IAS 1 *Presentation of Financial Statements* requires that when significant judgement has been involved in concluding whether or not there are material uncertainties that cast significant doubt upon an entity's ability to continue as a going concern, these judgements should be disclosed. This includes judgements where entity conclude:

- that there are significant uncertainties that cast doubt over the entity ability to continue as a going concern, but the entity has ultimately determined that financial statements should be prepared on a going concern basis; and
- there are no material uncertainties related to events or conditions that cast significant doubt over the entity ability to continue as a going concern.

27% had explained the possibility of material uncertainties that may dispute the companies' going concern status.

c) Period for the going concern assessment

IAS 1 *Presentation of Financial Statements* explicitly states that at each reporting date, management is required to assess the entity's ability to continue as a going concern and consider all available information about the future, which is at least, but is not limited to, twelve months from the annual reporting date. As a result, all events that occur during an entity's subsequent events period should be considered when evaluating whether there is significant doubt about the entity's ability to continue as a going concern.

47% of the 167 entities stated the periods covered for the going concern assessments. The length of period is generally of about 12 months for the concerned companies.

d) Events or conditions that may cast doubt on going concern assumption

Paragraph 26 of IAS 1 *Presentation of Financial Statements* states that when an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

FRC observed the key findings on the companies' going concern assessments in light of the COVID 19:

- 41% reported on the events or conditions that may cast doubt on going concern assumptions (e.g., net current

FRC's observation

41% did report on the events or conditions that may cast doubt on going concern assumptions.

situation, negative cash flows, operating loss and revenue
deficit).

Of note, some PIEs operating in sectors such as hotels, leisure and travel, had the most negative going concern indicators in light of the impact of COVID 19.

- Description of the level of drawn and undrawn finance facilities in place

  14% disclosed the level of drawn and undrawn finance facilities in place. Out of the PIEs that made these disclosures, some companies often commented on facilities, headroom and covenants.

- Potential for breaches of debt covenants

  Compliance with banking covenants and arrangements is fundamental, which magnifies the focus on cash flow forecasting and the abilities to maintain sufficient 'head room' to continue.

  7% of the PIEs had disclosed the covenants that were in place and expected to be breached. In particular, these entities should consider whether such breaches might result in a change of the timing of any related liabilities.

e) Scenario modelling

A company may undertake scenario modelling around COVID 19 and then subject these scenarios to sensitivity analysis. Scenario testing will help directors and managers make judgements, assumptions and estimates about the potential effect of COVID 19 on the entity.

- Different going concern scenarios

  It is important that management's assessment considers different scenarios, including at least one severe but plausible downside scenario. The assumptions used in the going concern assessment should be consistent with those used in other areas of the company's financial statements.

  19% of the 167 entities had explained the different going concern scenarios that included the key COVID 19 assumptions within each forecast which had impacted the going concern conclusions.

- Scenarios tested in light of reliance upon government support

  Management may consider the various factors some of which will be subject to significant estimates during these uncertain times, to assess a company's ability to continue as a going concern. These estimates may include the degree of support management expects the company to receive from the government and management's best estimate of the duration and magnitude of the pandemic. As a result, management may need to prepare updated financial forecasts and sensitivities using recent information.

12% provided information on the scenarios modelled in the light the PIEs' reliance upon government support to conclude on the going concern assessments.

f) Management risk mitigation strategies

In accordance with paragraph 25 of IAS 1 *Presentation of Financial Statements*, Management may disclose information about management's plans to mitigate the effect of those events or conditions, when a material uncertainty exists about the entity's ability to continue as a going concern.

It is noted that management's plan of a company may involve the short-term operating turnaround initiatives and/or long-term strategic initiatives to mitigate the going concern uncertainty. The operating approach to company turnaround typically consists of actions related to cost reduction, revenue generation and operating asset reduction. The management may implement more extensive strategic changes and adopt more forward looking, expansionary and external market focused strategies.

Considerations relating to management plans for implementation to alleviate the risk may include the following:

- Mitigating actions to improve liquidity

Senior management should develop plans to mitigate the impact of the conditions and events that put the company's liquidity at risk. The actions in management's plan should consider the current environment and may include plans for new borrowings or raising of additional capital, expected cost cutting, or liquidations of non-essential assets.

38% of the 167 PIEs had identified and explained any mitigating actions the boards could take to improve liquidity.

FRC's observation

38% identified and explained any mitigating actions the boards could take to improve liquidity.

- Management plans for future actions in the annual report

32% of the PIEs had disclosed their management plans for future actions. In some cases, a few went into details concerning what avenues they intend on exploring when it comes to future investments.

- Structural changes in order to continue to operate as a going concern

  8% of the entities had carried out structural changes in order to continue to operate as a going concern. The above structural changes which were performed by the PIEs, were mainly consisted of the actual shifting of the scale of operations or the digitalization of activities due to the restrictions imposed by the lockdown.

- Changes to liquidity, specifically the arrangement of new lending facilities, the extension of existing facilities or the renegotiation or waiving of bank covenants

  In the current environment, 31% of the 167 PIEs had renegotiated or amended their lending arrangements.

g) Financial support obtained from shareholders and government support to the PIE

Covid-19 prompts various forms of government relief programs via direct assistance, government grants or loans. Also, the pandemic conditions have increased the likelihood that a parent entity, director, shareholder, lender or other party may write a letter to a company or group entity, declaring their willingness to provide financial support if this should become necessary.

- Funding from related parties

  16% of the entities did receive financial support from their parent companies and/or shareholders. These funds will be used to either cater for unexpected liabilities or to pursue new projects.

- Government's assistance to the PIE

  A company may explain whether and how it has incorporated funds available under a government support scheme in its going concern assessment. FRC expects a company to provide detailed disclosures about the use of government support schemes, explaining how much funding is available, the likelihood of the scheme being utilised and the time horizon over which the funds are available.

  29% of the entities had disclosed that they received government assistance due to COVID 19 impact.

h) Expanded disclosures relating to COVID 19 on liquidity risk

IFRS 7 *Financial Instruments: Disclosures* requires disclosure of quantitative data about liquidity risk arising from financial instruments. A company also needs to explain how it is managing this risk, including any changes from the previous period and any concentrations of liquidity risk. Disclosures addressing these requirements may need to be expanded, with added focus on the company's response to the impact of external events.

Based on the above, it is noted that 18% of the PIES had provided expanded disclosures on liquidity risk in light of the impact of the COVID 19.

i) Reporting of emphasis of matter paragraph as per ISA 706

An emphasis of matter paragraph is included in the auditor's report and refers to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

7% of the auditors of the PIEs included emphasis of matter paragraphs, as per ISA 706 *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditors' Report*.

Of note, the auditors noted that the COVID 19 pandemic had adversely affected the operations of the PIEs operating in the sectors such as BIF, industry, hotels and leisure and sugar. In such circumstances the auditors had included emphasis of matter paragraphs which relate to the PIEs' going concern assessments.

B. Best practice

From the thematic reviews, it is observed that some PIEs had provided the best practice disclosures that would meet the FRC's expectations.

The best disclosures made by the PIEs with respect to going concern assessments are illustrated in the table below:

Areas under the topic of the going concern	Consideration of the most helpful disclosures included in the annual reports of the PIEs
Assessment of the appropriateness of the use of the going concern basis	64% of the 167 entities considered the existing and anticipated effects of the COVID 19 on the entity's activities in the assessments of the adequateness of the use of the going concern basis.
Period for the going concern assessment	47% of the 167 entities mentioned the periods covered for the going concern assessments. The length of period is generally of about 12 months for the concerned companies.
Events or conditions that may cast doubt on going concern assumption	41% did report on the events or conditions that may cast doubt on going concern assumptions (e.g., net current situation, negative cash flows, operating loss and revenue deficit).
Management risk mitigation strategies	The management risk mitigating strategies are set out below: • 38% of the 167 PIEs had identified and explained any mitigating actions the boards could take to improve liquidity.

	• 32% of the PIEs had disclosed their management plans for future actions. • 31% of the 167 PIEs had renegotiated or amended their lending arrangements.

C. Areas for improvement

This thematic review draws out the features of better reporting and disclosures, whilst also highlighting areas for improvement. The areas of opportunities for improvement are identified in the report as follows:

Areas under the topic of the going concern	Summary of areas of improvements
Material uncertainties that may cast doubt on the company's going concern status	There should be clearer explanation on the possibility of material uncertainties that may dispute the companies' going concern status.
Events or conditions that may cast doubt on going concern assumption	Given the uncertainty surrounding COVID 19, Management should consider the factors that might affect going concern assessments such as: • Level of drawn and undrawn finance facilities in place. • Covenants that were in place and expected to be breached.
Scenario modelling	Information on the different going concern scenarios including the key COVID 19 assumptions within each forecast which would have an impact on the going concern conclusions.
Management risk mitigation strategies	Disclosures on the structural changes should be undertaken by entities as this would enable them to continue to operate as a going concern.
Expanded disclosures relating to COVID 19 on liquidity risk	There should be expanded disclosures on liquidity risk in light of the impact of the COVID 19.

3.2.2 Impairment and fair valuation

Given the major economic uncertainty caused by COVID 19, many companies had reviewed their non-current assets and financial assets for impairment and fair valuation.

A. Impairment

IAS 36 *Impairment of Assets* applies to many assets recognised in an entity's financial statements (e.g. intangible assets, property, plant and equipment, right-of-use assets, associates and joint ventures accounted for under the equity method and investment properties not measured at fair value) while IFRS 9 *Financial Instruments* applies primarily to financial assets.

The effects of COVID 19 may require entities to perform impairment tests as indicators of impairment will exist for many entities. Impairment tests may also be difficult to perform due to the level of uncertainty created by the effects of COVID 19.

IAS 36 *Impairment of Assets* requires assets within its scope to be tested for impairment when indicators of impairment exist at the end of a reporting period (IAS 36.9). Many entities will have to perform impairment calculations in accordance with IAS 36, and these calculations may need to be significantly more detailed than have been prepared at previous period ends.

IAS 1 *Presentation of Financial Statements* requires disclosure of estimation uncertainty and associated sensitivities, where changing assumptions would give rise to a material impairment loss in the following year. Key inputs to valuation models, such as cash flow forecasts and/or inputs into the discount rates, are likely to change, especially in industries where there is likely to be a shift in demand and disruptions in supply chain, which are affected by the wake of COVID 19.

A.1 Findings on Impairment

In this thematic, FRC focused on some of the more significant issues with respect to the reporting on impairment arising from COVID 19:

a) Recognition of impairment gain/loss as a result of COVID 19 pandemic

IAS 36 *Impairment of Assets* seeks to ensure that the assets of a reporting entity are carried at amounts not in excess of their recoverable amounts.

IAS 36 *Impairment of Assets* defines the recoverable amount of an asset as the higher of its fair value less costs of disposal (FVLCD) to sell and its value in use (VIU). Fair value is defined as an amount obtainable in an arm's length transaction between knowledgeable and willing parties. VIU is based on an estimate of the future cash flows the entity expects to derive from the use of an asset or associated cash generating unit (CGU) in its current form. COVID 19 is likely to impact both FVLCD and VIU.

If the carrying amount of an asset exceeds its recoverable amount the asset is impaired. IAS 36 *Impairment of Assets* then requires the entity to write down the asset to its recoverable amount and recognise an impairment loss.

Out of the PIEs with non-financial assets, 48% recognized impairment on assets in their annual reports a result of COVID 19 pandemic. The impairment losses recognised were mainly referred to those made on PPE, goodwill and intangible assets, among others.

b) Disclosures in respect of the impact of the impairment losses recognised during the year and the relevant judgements and assumptions related to conditions that may result from the COVID 19 pandemic

➢ Increases in impairment losses

IAS 36 provides examples of indicators of triggering events, including:

- when significant changes have taken place during the period (or will take place in the near future) in the market or in the economic environment in which the company operates and these changes will have an adverse effect on the company; and
- when the carrying amount of the company's net assets is higher than its market capitalisation. [IAS 36.9–10, 12].

The effects of COVID-19 have caused a significant deterioration in economic conditions for many companies, and an increase in economic uncertainty for others, which may constitute triggering events.

Out of the entities that had non-financial assets, 28% of the entities experienced increases in impairment losses as a result of COVID 19 pandemic. In this regard, the entities provided a description of the impaired assets and disclosed the periods covered in respect to increases in impairment losses.

FRC's observation

Out of the entities that had non-financial assets, 28% of the entities experienced increases in impairment losses.

It is noted that as a consequence of the downward medium-term trading expectations due to the current economic environment which has been exacerbated by the global COVID-19 pandemic, there were increases in impairment losses.

➢ Relevant judgements and assumptions related to conditions that may result from the COVID 19 pandemic

Given the inherent uncertainties in making predictions, a company should disclose the underlying assumptions applied when preparing a viability statement, and any significant judgements made when assessing whether there are material uncertainties to disclose. Similarly, a company should disclose significant judgements made in applying accounting policies that have the greatest effect on the financial statements. The requirement to do so (IAS 1.122) is normally distinguished from the requirement of IAS 1.125 regarding sources of estimation uncertainty. Relevant judgements and assumptions might include identification of additional indicators of asset impairment.

15% of the entities reported on the relevant judgements and assumptions related to conditions that may result from the COVID 19 pandemic.

c) **Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives**

When a CGU's recoverable amount is based on its value in use, considerable judgement has to be exercised by management. IAS 36.134 requires detailed disclosures on estimates used to measure the recoverable amount of cash-generating units (CGUs) to which significant goodwill or intangible assets with indefinite lives have been allocated.

If the unit's recoverable amount is based on value in use, an entity shall disclose, among others:
- each key assumption on which management has based its cash flow projections and a description of management's approach to determining the value(s) assigned to each key assumption; and
- the long-term growth rate used and the discount rate(s) applied to the cash flow projections.

The following elements shall be reflected in the calculation of an asset's recoverable amount, as per IAS 36 *Impairment of Assets*:

- While future cash flows used in impairment calculations in accordance with IAS 36 *Impairment of Assets* are based on budgets and forecasts prepared by management, IAS 36.38 acknowledges that an entity must also consider whether the information reflects reasonable and supportable assumptions and management's best estimate of the set of economic conditions that will exist over the remaining life of the assets. In circumstances where the effects of the outbreak are developing quickly, a budget approved by management some time before the reporting date may need to be adjusted significantly before the preparation of the financial statements is completed.

- In addition, for CGUs with goodwill or indefinite life intangible assets, IAS 36 *Impairment of Assets* requires sensitivity disclosures when a reasonably possible change in key assumptions would completely erode headroom. IAS 36 *Impairment of Assets* also requires the disclosure of the amount by which the recoverable amount exceeds the carrying value and "base case" values for key assumptions for which sensitivity is given.

The impacts of Covid 19 have caused a significant deterioration in economic conditions for many companies and an increase in economic uncertainty for others, which may constitute triggering events. Certain sectors have been significantly impacted – e.g. travel tourism, entertainment, retail, construction, manufacturing, insurance and education.

The key areas include the reasonableness of cashflow forecasts, the key assumptions used in the impairment test and the relevance and appropriateness of the sensitivity analyses regarding impairment testing of goodwill and other intangible assets for PIEs, in light of the COVID 19 pandemic:

- Indication that budgets and plans used in impairment testing were updated in the light of COVID 19 in order to reflect the estimated impact

  12% of the entities stated that their budgets and plans which were used to determine the recoverable amounts of assets, had been revised to reflect the economic conditions at the balance sheet dates and potential impacts of COVID 19.

- Disclosures with regard to the discount rates that explained the reassessment of key inputs, showing the link between the increased risk and COVID 19

  Only 5% of the entities showed concern as there are obvious links between trade debtors and the effects of the pandemic thus urging some of these entities to increase their provisions as a result.

- Disclosures in respect of COVID 19 risks into the PIEs' cash flow projections, discount rates and long-term growth rates

  11% of the entities provided clear disclosures on the treatment of COVID 19 risks in the cash flow projections, discount rates and long-term growth rates. It should be noted that the cash flows projections had been changed accordingly so as to reflect the impact of the pandemic on the entities' activities.

- Information regarding the scenarios and assumptions used with respect to the expected cash flow approach taking into consideration of the COVID 19 pandemic

  8% of the entities included information on the different scenarios use in respect of the expected cash flow approaches which is in line with the COVID 19 pandemic.

- Information on the possible changes in key assumptions, factoring in reductions in sales, operating profit, higher increases to the discount rate

  14% of the PIEs widened the reasonably possible changes in key assumptions, factoring in reductions in sales, operating profit and higher increases to the discount rates.

- Disclosures included in sensitivity values consistent with the analysis included in the viability statement and going concern assessment

  9% of the concerned entities did report on the subject matter. Therefore, the disclosures which are included in the sensitivity values are deemed as consistent with the viability statements and going concern assessments.

d) **Impairment**: events and circumstances

An entity shall disclose … : *(a) the events and circumstances that led to the recognition or reversal of the impairment loss*. [IAS 36.130]

Due to the outbreak of COVID 19, a number of impairment indications may exist for many assets and cash-generating units (CGUs), including, for example, government closure orders for factories and shops, reduced demand from customers and evidence from internal reporting that actual performance is significantly lower than management forecasts. If any such indication exists, an entity is required to estimate the recoverable amounts of those assets and/or CGUs to assess whether to recognise impairment losses.

Out of the entities that had non-financial assets, only 6% disclosed these events. Most of the entities attributed their losses to the effects of the pandemic or stated that the existing impairment was worsened by the pandemic. Some entities had made recovery plans and had taken into consideration the actions that would resolve the impairment losses.

B. Fair valuation

IFRS 13 *Fair value measurement* sets out the framework for fair value measurement for both financial and non-financial assets and liabilities. It requires the disclosure of the significant assumptions, valuation techniques and inputs used to measure the fair value. In particular, where the fair value measurement requires the use of significant unobservable inputs (level 3), more judgement must be exercised in determining fair value and the disclosure requirements are more detailed.

IFRS 13 *Fair value measurement* requires detailed disclosure with regard to level 3 fair value measurements including sensitivity analysis for unobservable inputs relating to level 3 financial assets and financial liabilities. These disclosures are supplemented by disclosure requirements of IAS 1 *Presentation of Financial Statements* for sources of estimation uncertainty and related sensitivities or ranges of possible outcomes (IAS 1 paragraphs 125 and 129).

Fair value disclosures provide important information about the valuation techniques and inputs used to determine fair values, and how level 3 fair value measurements affected profit or loss or other comprehensive income during the period.

The COVID 19 pandemic has brought much higher levels of uncertainty, impacting fair value measurements for many companies.

B.1 Findings on fair valuation

a) Impact of COVID 19 on the fair measurement of PPE, investment properties and financial assets

As a result of COVID 19, there have been increases in the volatility of various markets, which could affect the fair value measurement. An entity needs to consider the extent of market knowledge about the outbreak at the reporting date to determine the fair value at that particular date. Special attention needs to be addressed to level 3 inputs, by utilizing the best information, both internal and external, known to the entity in the circumstances. An entity needs to also disclose the valuation techniques as well as the inputs that it used to arrive at the fair value Furthermore, sensitivity of the valuation changes in assumptions may be disclosed as well.

- With respect to the PIEs that had financial assets valued at fair value, it is noted that 38% of these PIEs was affected as a result of the COVID 19 pandemic.

  Some even reported that their foreign branches suffered as a result of the pandemic. As such, these entities stated that losses were made and the management of financial assets needed adjustments to prevent any possible losses in the future.

FRC's observation

38% disclosed that the fair value of the financial assets was affected as a result of the COVID 19 pandemic.

- 6% reported that the fair values of PPE and investment properties were affected due to COVID 19.

b) Information on the valuation techniques used and key assumptions and inputs used in determining fair values of PPE, investment properties and financial assets

Providing information on the valuation techniques used and key assumptions and inputs used in determining fair value, including the sensitivities by providing disclosures required by the standards, is an integral part of determining fair value and they are key to enhancing the usefulness of financial reporting in this unprecedented time to the users of financial statements.

The key considerations in respect of key assumptions and inputs used in determining fair values, including the sensitivities of the fair value measurements are set out below:

- Out of 167 annual reports, 7% disclosed the sensitivities regarding COVID 19 related assumptions.
- 10% disclosed the effects of uncertainty on the discount rates and consistency with cash flow adjustments in their annual reports.
- 8% widened the reasonably possible changes for key assumptions in their sensitivity analyses due to increased uncertainty.

- 10% disclosed the changes in the assumptions included in the valuation techniques in light of COVID 19.

- 22% reported the considerable changes in judgements used in determining the fair value of assets measured in accordance with IFRS 9 Financial Instruments.

c) Impact on the audit report and audit opinion with respect to the fair valuation of non-financial assets

Paragraph 6 of ISA 702 requires that if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.

In some cases, a company may use an expert to value property, the expert may include material uncertainty clauses in valuation reports, given the uncertain environment, which management will need to consider. In this regard, the auditor is expecting to include an 'emphasis of matter' paragraph in the audit report which is intended to draw the user's attention to the material valuation uncertainty. A detailed explanation should be included in respect of this material valuation uncertainty within the basis of preparation section and the notes to the financial statements.

Only one company had an emphasis of matter paragraph in relation to material valuation uncertainty. In this case, this PIE had provided a detailed explanation of this material valuation uncertainty in the notes to the financial statements.

C. Expected Credit Loss Provisioning

IFRS *9 Financial Instruments* sets out a framework for determining the amount of expected credit losses (ECL) that should be recognised. It requires that lifetime ECLs be recognised when there is a significant increase in credit risk (SICR) on a financial instrument. IFRS 9 *Financial Instruments* requires the application of judgement and both requires and allows an entity to adjust their approach to determining ECLs in different circumstances. An entity is required to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration should be given both to the effects of COVID 19 and the significant government support measures being undertaken.

The IFRS 9 *Financial Instruments* expected credit loss model (ECL) requires the use of reasonable and supportable forward-looking probability-weighted information in addition to the historical data. IFRS 9 *Financial Instruments* requires an unbiased expected credit loss provision, neither overly optimistic nor overly pessimistic.

Obtaining reasonable and supportable forward-looking information is likely to be challenging in the current environment and may involve a high degree of judgement and estimation uncertainty.

C.1 Findings on Expected Credit Loss Provisioning

a) Disclosures of credit risk policies and practices in light of COVID 19 pandemic

The following may be noted in regard to the PIEs' credit risk policies and practices:

- Credit risk management

COVID 19 may have a lasting effect on risk management in sectors that could experience changes in credit risk, market risk and operational risk as a consequence. It is inevitable that the credit quality in certain sectors will be negatively impacted due to credit rating.

27% of the PIEs reported on the changes to their credit risk management in response to COVID 19.

In response to a rapidly evolving situation, some have taken steps to prudently manage the exposures by tightening the credit policies and reviewing the credit scorecards and prudential limits in order to maintain risk at an acceptable level. In the other hand, few PIEs had considered to extend the credit facilities of the trade receivables or agreed on a repayment plans as part of the strategies to mitigate the credit risks.

FRC's observation

27% of the PIEs reported on the changes to their credit risk management in response to COVID 19.

- Concentration of credit risk

An entity may reassess existing the credit portfolios and reassess how credit concentrations are aggregated and reported, and modify them to align with the pandemic. The company may consider putting a different lens on the credit portfolio by evaluating professions, geographies and rating agency downgrades, among other areas. In light of the COVID 19 pandemic, the most adversely impacted sectors were tourism, hospitality, and transport sectors. A company may make its adjustments on the distribution of credit-risk concentration in particular vulnerable sectors of the economy.

Only 19% discussed on the impact of COVID 19 on its concentration of credit risk.

Among these 19% PIEs, some had been more stringent on the credit risk assessment exercises whereby they have identified all clients falling in those affected sectors with significant risks of default and provided the full amounts.

- Incorporation of forward-looking information in the ECL measurement

IFRS 9 *Financial Instruments* requires forward-looking information to be considered both when assessing whether there has been a significant increase in credit risk and when measuring ECLs.

Forward-looking information might give rise to additional downside scenarios related to the spread of COVID 19. Inclusion of the relevant forward-looking information in ECL assessments can be achieved by any significant adjustments made by management to the impairment figures and models, and key sources of estimation uncertainty.

- 22% of the entities disclosed such information in their annual reports. These entities had to recalibrate their forward-looking assumptions and adjust them to take into consideration the effects of COVID 19. This thus reflects the macroeconomic conditions prevailing at that time.

- The management of 17% of the entities made significant changes to the impairment figures and models due to the COVID 19 outbreak. Most of the entities decided to take on prudent approaches and increased the allowances regarding ECL and created COVID 19 allowances.

b) COVID 19 related matter on expected credit losses reported as KAM

Key Audit Matters (KAM) are defined as "*Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance."*

The KAMs should be selected from those matters that required "significant auditor attention." In particular, the auditor should explicitly consider areas where there might be a higher risk of material misstatement or those where significant management or auditor judgments were involved.

17% of the auditors' reports included Key Audit Matter paragraphs drawing attention to the impact of COVID 19 on expected credit losses. In this regard, it is noted that the impact of COVID 19 resulted in additional key judgments and assumptions being made by management during the current year when considering the amounts of the expected credit losses (ECL) for loans and advances and trade receivables to customers.

D. Best practice

PIEs need to consider the areas of best practice which set out the good practice principles for quality annual reporting.

Some companies within FRC's sample had included helpful, company specific fair value and impairment disclosures within their financial statements as shown below:

Areas under the topic of impairment and fair valuation	Consideration of the most helpful disclosures included in the annual reports of the PIEs
Impairment	
Disclosures regarding increases in impairment losses	28% had experienced increases in impairment losses due to the COVID 19 pandemic. Some PIEs had reported that the temporarily ceasing operations or suffering immediate declines in demand or prices and profitability are clearly events that indicated impairment in the light of the COVID 19 outbreak.
Fair valuation	
Impact of COVID 19 on the fair measurement of PPE, investment properties and financial assets	Out of the 167 PIEs, 38% disclosed that the fair values of their assets was affected as a result of the COVID 19 pandemic. Some even reported that their foreign branches suffered as a result of the pandemic.
Credit risk management	27% of the PIEs reported on the changes to their credit risk management in response to COVID 19. Few PIEs have made rigorous monitoring of the economic situation and the evolution of the pandemic especially in view of extension of payment reliefs prescribed by the central bank.

E. Areas for improvement

This theme draws out the features of better reporting and disclosures, whilst also highlighting areas for improvement.

The areas for improvement are identified in the report as follows:

Areas under the topic of impairment and fair valuation	Summary of areas for improvement
Impairment	
Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives and sensitivity values which were updated in light of the COVID 19 pandemic	The disclosures should be properly made in light of the COVID 19 pandemic in respect of: • The budgets and plans that will be experiencing some changes due to the effects of the COVID 19 so as to properly reflect the aftermath of this event on their activities. • Discount rates that explained the reassessments of key inputs, showing the link between the increased risks and COVID 19. • Incorporation of COVID 19 risks into the cash flow projections, discount rates and long-term growth rates.

	• Information on the different scenarios in respect of the expected cash flow approaches which is in line with the COVID 19 pandemic. • Widening of the reasonably possible changes in key assumptions, factoring in reductions in sales, operating profit and higher increases to the discount rates. • Sensitivity values consistent with the analyses included in the viability statements and going concern assessments. • Changes in judgements used in determining the fair value of assets measured in accordance with IFRS 9.
Fair valuation	
Key considerations in respect of key assumptions and inputs used in determining fair value, including the sensitivities of the fair value measurements	There should be more disclosures in light of the COVID 19 pandemic in respect of: • Sensitivities regarding COVID 19 related assumptions. • Effects of uncertainties on the discount rates and consistencies with cash flow adjustments. • Widening reasonably possible changes for key assumptions in their sensitivity analysis due to increased uncertainties. • Changes in the assumptions applied in respect of the valuation techniques in light of the COVID 19.
Expected Credit Loss Provisioning	
Key considerations in respect of key assumptions and inputs used in determining fair value, including the sensitivities of the fair value measurements	The annual reports may include opportunities for improved disclosures in respect of: • Changes to the credit risk management in response to COVID 19. • Discussions on the impact of COVID 19 on the concentration of credit risk. • Recalibrations on the forward-looking assumptions due to the COVID 19 outbreak. • Significant changes to the impairment figures and models due to the COVID 19 outbreak.

Other financial reporting issues	
COVID 19 related accounting consequences	PIEs are encouraged to link the accounting consequences of impairments of assets, fair valuation and expected credit provisioning with other recognition, measurement and disclosures in the financial statements. In addition, entities may consider the disclosures made in this focused area with other relevant IFRSs requirements, including, but not limited to: • disclosure relating to assumptions about the future and sources of estimation uncertainties; and • disclosures related to financial instruments in accordance with IFRS 7 Financial Instruments.

3.2.3 Subsequent events

IAS 10 *Events after the Reporting Period* prescribes the treatment of transactions and events that occur between the date of the financial statements and the date when the financial statements are approved by the Board of Directors for issue.

There are generally two types of subsequent events:

- Events which provide evidence of conditions that existed at the date of the financial statements; and
- Events which provide evidence of conditions that arose after the date of the financial statements.

Given the pace of change in the pandemic, it is more likely that changes after balance date will qualify as an adjusting or non-adjusting subsequent event depending on the reporting period of the annual report of the company. This is set out below:

- For reporting period subsequent to December 31, 2019 (i.e., reporting period ending in 2020), more information is available that preparers and market participants will need to factor into their assumptions and assessments.
- Accordingly, the later the reporting period is after December 31, 2019, the greater the need to consider whether the impacts of COVID 19 in the subsequent event period should be considered an adjusting event in an entity's financial statements.

The operations, financial position and performance of most PIEs in the leisure and hotels sectors with financial years 2021, were impacted by the pandemic. These PIEs had disclosed the implications arising from the COVID 19 pandemic in their annual reports. Also, some PIEs with financial years 2020 had taken into consideration the lockdown imposed by the government in March 2021 and had included same as a subsequent event.

A. Findings on subsequent events

The following observations were noted with respect to subsequent events identified by PIEs in light of COVID 19 outbreak:

- Management's consideration of the assessment of the subsequent events

Due to coronavirus (COVID 19) pandemic and the uncertainty that it has unleashed, it has become more important than before that management are vigilant to subsequent events and provide appropriate adjustment or disclosure for these events in order to enhance the quality of corporate reporting.

27% of the PIEs reported on the impact of the COVID 19 pandemic under subsequent events. In this regard, the PIEs considered that this situation was still evolving and it was difficult to quantify the effects of the pandemic on business activities given the level of uncertainties relating to the deterioration in macro-economic forecasts.

- Entity's consideration of the likely impact of the pandemic on the company's liquidity, going concern and capital resources subsequent to its reporting period

It is important that an entity provide robust and transparent disclosures about the expected effect of COVID 19 on the company's liquidity, going concern and capital resource issues after the reporting date.

33% of the entities provided information on subsequent events relevant to the liquidity, going concern and capital resources.

FRC's observation

33% of the entities provided information on subsequent events relevant to the liquidity, going concern and capital resources.

- Updating disclosure about conditions at the end of the reporting period

The coronavirus is ordinarily an adjusting event for any reporting period ending as from 31 January 2020. If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

- Information on the most likely impact of COVID 19 outbreak on the company's operations, strategy and business model after the reporting date

Out of the 167 annual reports reviewed, 21% included information on the changes made in operations, strategies and business models in light of the COVID 19.

- Disclosures with respect to the forecast of future income and cash flows and its impact on valuation and recoverable amount of assets in light of the COVID 19 19 crisis

  Out of 167 PIEs only 11% disclosed information on the forecast of future income and cash flows and provided scenarios where the recoverable amounts of assets are achievable in light of the COVID 19 crisis.

- Disclosures on the mitigating measures in response of the COVID 19 pandemic made under the *'Subsequent Events'* note

  13% of the entities had made disclosures on the mitigating measures which were taken as a result of adverse effects of the COVID 19 pandemic under the *'Subsequent Events'* notes. In this regard, the mitigating measures include the use of more conservative approaches to credit and close monitoring of the cash flows among others.

B. Best practice

PIEs need to consider the areas of best practice which set out the good practice principles for good annual reporting.

All companies within our sample had included helpful, company specific subsequent event disclosures within their financial statements as shown below:

Areas under the topic of the subsequent events	**Consideration of the most helpful disclosures included in the annual reports of the PIEs**
Management's consideration of the assessment of the subsequent events	27% of the PIEs reported on the impact of the COVID 19 pandemic under subsequent events.
Entity's consideration of the likely impact of the pandemic on the company's liquidity, going concern and capital resources subsequent to its reporting period	33% of the entities provided information on subsequent events relevant to the liquidity, going concern and capital resources.

C. Areas for improvement

This thematic draws out the features of better reporting and disclosures, whilst also highlighting areas for improvement.

The areas of opportunities for improvement are identified in the report as follows:

Areas under the topic of subsequent events	Summary of areas for improvement
Information on the most likely impact of COVID 19 outbreak on the company's operations, strategy and business model after the reporting date	There should be more disclosures on the PIEs' updated operations, strategies and business models in light of the COVID 19.
Disclosures with respect to the forecast of future income and cash flows and its impact on valuation and recoverable amount of assets in light of the COVID 19 crisis	PIEs need to indicate the forecasts of future income and cash flows and the annual reports have to disclose the scenarios where the recoverable amounts of assets are achievable taking into consideration the COVID 19 crisis.
Disclosures on the mitigating measures in response of the COVID 19 pandemic made under the 'Subsequent Events' note	Entities have to make better disclosures on the mitigating measures in response of the adverse effects of the COVID 19 pandemic under the 'Subsequent Events' notes.
COVID 19 related accounting consequences	PIEs are encouraged to make disclosures to be consistent on COVID 19 related consequences with that reported on other areas of financial reporting, as set out below: • going concern assessments; • impairments of assets, either financial or non-financial; and • fair valuation. In addition, entities may provide disclosures made in this focused area with other relevant IFRSs requirements.

4.0 CONCLUSION

With respect to the focused areas under the thematic review, it is noted that most PIEs have considered the impact of the COVID 19 on their financial reporting. The annual reports of the PIEs contain sufficient information on the companies' performance, position and prospects which enable the users to understand the impact that COVID 19.

PIEs have to consider the need for disclosures not explicitly prescribed by IFRS to enable users of accounts to understand the impact of events and conditions on a companies' position and financial performance, as required by paragraph 31 of IAS 1 '*Presentation of Financial Statements*' in the current environment. Besides, some PIEs have included additional information in the annual reports which provides more useful disclosures to the users of financial statements.

Hence, it is observed that the best disclosures were those that were specific to the companies in light of IFRSs and which provided additional information that clearly explained how COVID 19 had impacted the companies' reported position and performance and how it may affect future prospects.

5.0 WAY FORWARD

Given the uncertainty surrounding COVID 19, companies need to continually monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing annual reports and financial statements. The level and detail of disclosures surrounding the impact of COVID 19 are dependent upon the significance of the impact that COVID 19 had, and is expected to have, on the businesses' operations and activities.

Whilst FRC had seen good disclosures in the annual reports of PIEs, there is scope for improvement. The PIEs are encouraged that the following disclosures be made in the annual reports:

- Going concern disclosures in annual financial statements should clearly explain the key assumptions and judgements taken in determining whether companies are able to operate as a going concern. In particular, any significant judgements taken in determining whether or not there is a material uncertainty in respect of going concern must be clearly documented.

- With respect to going concern, impairment and fair valuation, PIEs are encouraged to provide clear disclosures on judgements and sensitivity analyses which include details of a range of possible outcomes to be provided for areas subject to significant estimation uncertainties.

- Consistency in disclosures between the going concern assessments and impairment and fair value and subsequent events areas of the financial statements has to be made, in light of the COVID 19 related accounting consequences.

The PIEs are encouraged to consider the findings within this thematic review report, when drafting their next annual reports.