Accounting and Auditing considerations for the impact of COVID-19 on Going Concern webinar 10 June 2020

Q&A Summary

No	Name	Question	Answer
1.	Daniel Schoeman	A company is factually insolvent, but commercially solvent. A small profit was made during the year under review. What do I need to consider to: Include in my Reviewers report and potential reporting requirements?	@ Daniel Schoeman: **As the Independent Reviewer, you must consider whether a Reportable Irregularity (RI) has taken place. If YES, then you need to report it to CIPC without delay.** **Regulation 29(1)(b) defines a RI, as meaning** ***"any act or omission committed by any person responsible for the management of a company, which –*** (i) ***unlawfully has caused or is likely to cause material financial loss to the company or to any member, shareholder, creditor or investor of the company in respect of his, her or its dealings with that entity; or*** (ii) ***is fraudulent or amounts to theft; or*** (iii) ***causes or has caused the company to trade under insolvent circumstances."*** **This clearly states that where management has caused the company to trade under insolvent circumstances, it is a RI.** **Regulation 29(1)(b)(iii) is considered to deal with factual insolvency.** **Thus, in terms of Regulation 29(1)(b)(iii), if a company whose annual financial statements are subject to a review (and not an audit), has traded, or is trading whilst factually insolvent, that conduct itself constitutes a reportable irregularity, which must be reported to CIPC.** **You also need to include this fact in your Reviewer's report.**
2.	Daniel Schoeman	If I am only the compiler, do I have the same reporting obligation?	@ Daniel Schoeman: **No, you do not have to report anything to CIPC in your capacity as compiler. Your main objective is to compile and report in accordance with the financial reporting framework.** **BUT you should disclose the details of the factual insolvency as well as corrective action taken (or plans in place) to mitigate this, e.g. subordination of loan account, guarantees, letters of support, issuing additional shares, etc.**
3.	Daniel Schoeman	If you complete the compilation and tax matters of a client and you are aware of the fact that the client needs to be reviewed, but omits to do so, do you need to report him or withdraw from the compilation appointment?	@ Daniel Schoeman: **There is no statutory obligation to report the client. It is your prerogative to withdraw from the engagement, but I think that this is a bit drastic. You would need to refer to your professional body's Code of Conduct for your NOCLAR responsibilities.** **You could advise your client of the fact that they should be reviewed, and then proceed to accept the independent review engagement.**

4.	Denis Soldat	Lettie - regarding your response to Daniel on RI where factually insolvent. What is the position where the balance sheet indicates factual insolvency, but the assets include e.g. a farm that was purchased a long time ago that has market value more than carrying amount and more than net liability position. Am I correct in saying that in this instance no report to CIPC is required despite the balance sheet indicating a net liability position?	**Report to CIPC without delay, as required in Regulation 29.** **Then inform your client, who can then effect a revaluation on the farm, which will then "fix" the technical insolvency.** **Your 2nd report to CIPC will then indicate the RI no longer exists.**
5.	Daniel Schoeman	In making the evaluations of write-downs, we need to access the level of alert and rules thereof. I am not even sure if I am allowed to wear my golf shirt? Our profession has just become more interesting.	@ Daniel Schoeman: **Absolutely! There are soooo many laws and regulations that we need to consider nowadays – just staying up to date is a challenge in itself.**
6.	Johan le Roux	Regarding supplies: ships with containers are not being allowed to offload - directly as a result of reduced on-shore capacity due to COVID.	@Johan le Roux: **True, and this makes it difficult for vendors to receive their stock, which affects the supply and increases the price of certain items!** **Also, the supplies in those containers may decrease in value due to expiration, etc.** ***It certainly is interesting to realise how widespread the effects of COVID-19 actually are!***
7.	Hannes	A company is trading as a Call Centre in SA with the Holding company sitting abroad who is generating the income. The SA company is generating losses year on year as it does not generate income of its own. It received funds from the holding company. Do I, as the Independent Reviewer, need to disclose anything in my report or is the Directors report sufficient enough, which states in going concern that although they are making losses they receive sufficient funds from the holding company to be a going concern?	@Hannes: **The fact that the SA company generates losses year after year, definitely creates uncertainty as to whether they are a going concern. As the independent reviewer, you do not have an obligation to ensure proper disclosure in the financial statements or Directors' Report – this is management's responsibility. As independent reviewer you need to evaluate whether the uncertainty is material, and whether it has been adequately disclosed in the AFS. If it has, then you should include a paragraph in your report to draw attention to this disclosure, using wording that is similar to an auditor's Emphasis of Matter paragraph in this regard.** ***Refer to ISRE 2400 paragraph 87*** **You can also refer to SAAPS 3, and to the IRBA bonus document on auditor reporting.**
8.	Bianca	What about Compilations? Do we have any obligations with regards to reporting on GC - or only in the directors report?	@Bianca: **Compilers of financial statements do not have any reporting obligations as a result of going concern, but they should ensure that the circumstances surrounding the uncertainty and resulting plans are properly disclosed. This is usually done in the Directors' Report.**
9.	Seydre	Lettie do you know of anyone who has had a TERS audit yet? Would be great if we had some idea of what they are going to come after	**Not at this stage, no.**