TECHNICAL PRONOUNCEMENT NO. 1 OF 2020

(NBAA)
THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS TANZANIA

COVID 19 AND ITS IMPACT ON FINANCIAL REPORTING

1.0 INTRODUCTION

COVID 19 has been identified by the World Health Organization (WHO) as a new disease, distinct from other diseases caused by corona viruses, such as Severe Acute Respiratory Syndrome (SARS) and Middle East Respiratory Syndrome (MERS).

The first case of COVID-19 in Tanzania was confirmed in late March 2020 and, subsequently, the numbers of confirmed cases have reached 480 by 29th April 2020 (Prime Minister's Office).

The Government of the United Republic of Tanzania has responded by putting in place various measures to contain the spread of the virus, including shutting down of all primary and secondary schools, colleges and other higher learning institutions, limiting public gatherings, cancellation of seminars and conferences across the country, suspension of all international flights, quarantine requirements as well as providing guidance on hygiene and social distancing.

With this kind of environment, quality and fairly presented financial statements are highly pleaded essential for the users of financial statements and other relevant stakeholders. Since the main objective of the accountancy profession is to protect the public interest, preparers of financial statements besides auditors of those financial statements need to consider a number of issues arising from COVID 19 pandemic in the whole process of preparing and auditing financial statements.

As far as COVID-19 pandemic gives rise to new and rapidly changing conditions that accountants and auditors may not have previously encountered, the impact of COVID 19 depends on the entity's reasonable judgement on whether the entity affected is a public or private sector entity.

Please note that this public notice does not contain an exhaustive list of accounting considerations, and their applicability will depend on the facts and circumstances related to each entity. It is the responsibility of the reader of this note to review the entity-specific accounting requirements guided by their accounting policies and their applicable financial reporting framework.

2.0 IMPACT ON FINANCIAL REPORTING

The Board have ascribed a number of aspects in relation to application of accounting standards in public and private sectors within the country. This public notice aims at reminding preparers of the financial statements on various accounting and auditing requirements that should be considered when addressing the impact of COVID-19 on the entity's financial statements.

S/N	Matter in hand	Preparers' considerations
1.	**Assessment of Materiality of the impact**	• It is important that management and Those Charged With Governance (TCWG) to discuss and assess the impact of COVID-19 at an early stage of the financial reporting process. • Assess whether there is material quantitative (financial) or qualitative impact on the entity's financial and operational undertaking.
2.	**Financial impact assessment**	***As per relevant applicable accounting standard (IPSAS, IFRS, IFRS for SMEs, FRSME) expected direct financial impacts may include but not limited to:-***
		• Impairment of non-financial assets due to changes in assumptions for impairment testing i.e. changes in cash flow projections etc.;
		• **Impairment of financial assets;** Impairment of financial assets due to changes in assumptions for impairment testing;, this may include the following assessments: **Expected Credit loss Assessment (ECL) (IFRS 9)** o The impact of the outbreak may vary depending on an entity's specific situation and its methodology in assessing ECL. Accordingly, management should ensure that there is reasonable and supportable consideration of past events, current conditions and forecast of future economic conditions when making that assessment. o Entities may consider some issues such as credit ratings, NPL, strategy, resources in restructuring, contract modifications, collateral values etc.
		• **Fair value/market value Measurements;** o COVID-19 will undoubtedly impact the measurement of fair value/market value for some financial statement items; however, whether an adjustment is required depends on the timing of the impact to an item's fair value/market value. o When measuring fair value/market value, management must consider the facts and circumstances that existed at the measurement date and that were known or knowable by the parties. o Accordingly, management will need to evaluate the information that is available at their reporting date with

		respect to COVID-19 in order to assess whether that information would have impacted the price either party would have been willing to accept for that transaction. o Reference can also be made to IAS 10 and IPSAS 14 in addressing this issue.
		• **Employee benefits:** Consider among others:- o paid absence in addition to any sick or annual leave entitlement, if any, o potential impact on estimates, including actuarial assumptions used in measuring employee benefits. o changes in expected timing of an asset retirement obligation; o Accruals for employee termination costs as a result of the increase in layoffs and contract terminations;
		• **Liquidity challenge** o The outbreak of the COVID-19 pandemic and the pandemic response measures such as the suspension of social events which have been adopted not only in Tanzania have significant economic consequences. o In particular, many businesses as well as public sector institutions affected by the crisis i.e. public schools and universities, may face liquidity shortages and difficulties in timely payment as well as collection of their financial and other commitments. o These liquidity shortages and difficulties may also be caused by:- (i) Increased liquidity outflows due to large facilities being drawn, restructuring by customers, stressed equity and bond market, (ii) Liquidity crunch and worsening of liquidity positions. o This could in turn have an impact on entities receivables, in this case entities are urged to make a thorough assessment on the collectability of their receivables to make sure that the reported figures are fairly presented.
		• **Recognition of provisions** Increased costs and/or reduced demand requiring provisions for onerous contracts or for restructuring.
		• **Deferred tax assets;-** Determine if among others, there is a need to update projections for the reversal of taxable temporary differences and for other future taxable profits, ensuring that the assumptions are consistent with those used for other recoverability assessments.
		• Ascertain changes in net realizable value/current replacement cost of inventory;
3.		***General Disclosures***

	Disclosures including financial risk	Management consider IPSAS 1 or IAS 1 for disclosure of:- • significant accounting policies; • most significant judgements made in applying those accounting policies; • estimates that are most likely to result in an adjustment to profits/surplus in future periods; • additional line items or sub-totals on the face of the financial statements where this is necessary for an understanding of performance and position.
		Disclosure of financial risks:- Entities will need to provide: • disclosures on changes in financial risks (such as credit risk, liquidity risk, currency risk and other price risk) or their objectives, policies and processes for managing those risks. • additional disclosures about liquidity risk as the COVID 19 pandemic has affected entity's normal levels of cash inflows from operations.
		Disclosure as per the TFRS 1 – Directors' Report: Disclosure of issues which are of interest to stakeholders due to impacts of the COVID 19 pandemic and the measures taken to contain its spread includes but not limited to: • Discussion of impacts from external environment. • Extent of the effect on entity's key performance indicators. • Explanation about current and future development and performance with respect to the virus. • Strategic, commercial, operational and financial risks which may significantly affect the entity's strategies and development of the entity's value together with policies for managing principal risks. • Comment on the events that have impacted the financial position of the entity during the financial year, and future factors that are likely to affect the financial position going forward. • Comment on any special factors that have influenced cash flows in the financial year and those that may have a significant effect on future cash flows. • discussion on the entity's current and prospective liquidity.
4.	**Events after the reporting period**	• Events after reporting period are those events that occur between the end of the reporting period and the date when the financial statements are authorized for issue. • Generally, there are two types of subsequent events: (i) Those that provide evidence of conditions that existed at the end of the reporting period and therefore require the financial statements to be adjusted; and (ii) Those that are indicative of conditions that arose after the reporting period and therefore do not require the financial statements to be adjusted, but may require disclosure within the financial statements.

		• As noted earlier, the first presumptive case of COVID-19 in Tanzania was confirmed in late March 2020 from this point in time, the Government of the United Republic of Tanzania managed to put in place various measures to contain the spread of the virus. • Preparers will need to consider the facts and apply judgement in assessing the specific events, and more importantly the timing of those events, provide evidence of conditions that existed at the end of the reporting period in order to determine if an adjustment is required. • For entities with accounting period ended on 31st December 2019, will be required to make comprehensive disclosure on the impact of the COVID-19 on the financial statements. • When making this judgement, the preparers should take into consideration all available information about the nature and the timing of the outbreak and measures taken.

5.	**Going Concern**	• When preparing financial statements, preparers are required to assess the entity’s ability to continue as a going concern.
		• Financial statements are prepared on a going concern basis unless management either intends to liquidate the entity (i.e., entity ceases to operate, is wound up or dissolved and the net assets of the entity are redistributed) or to cease operation/trading, or has no realistic alternative but to do so.
		• When prepares determine the use of the going concern basis of accounting is not appropriate in the circumstances, preparers may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis).
		• Disclosures are required when either:
		  o The going concern basis is not used, including the basis of accounting used to prepare the financial statements; or
		  o Preparers is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.
		• Preparers will need to consider the existing and anticipated effect of COVID-19 on the entity’s activities and their ability to continue as a going concern for at least, but not limited to, 12 months.
		• Entities impacted by COVID-19 will need to consider internal factors such as their future expected profitability/cash flows, ability to meet debt repayment and other obligations, and the ability to obtain financing or other cash injections (if needed).
		• In addition to assessing internal factors, preparers will also need to consider external factors such as
		  o commodity and foreign exchange fluctuations,
		  o their customers’ ability to pay,
		  o suppliers’ ability to provide goods/services, and
		  o likelihood of continued government funding for public sector entities.

		• Given the continually changing nature of the COVID-19 pandemic, preparers must continually obtain and assess new information as it arises in order to assess the impact to the entity.
6.	**Interim financial statements**	***The following among others are a broad range of issues to be considered for the first set of interim report with respect to COVID-19:-***
		• **Going concern** Assess the company's ability to continue as a going concern at the interim reporting date.
		• **Impairment of non-financial assets** Reviews for indicators of impairment and any resulting tests for impairment of non-financial assets are performed at the interim reporting date in the same manner as at the annual reporting date.
		• **Property, plant and equipment (PPE) and intangible asset** o Entities are required to review the residual value and the useful life of an asset at least at each financial year end. o Given the current economic conditions, entities need to reassess those estimates during the interim period if the usage or retention strategy for these assets has changed.
		• **Impairment of financial assets** o Entities apply the same criteria when testing for impairment of financial assets as those at its annual reporting date. o If an entity recognizes a material impairment loss on financial assets, then it provides in its interim financial statements an explanation of and an update to the relevant information included in the last annual financial statements.
		• **Fair value measurement** o The carrying amount of assets that are measured at fair value/Market Value – e.g. investment property – is determined at the interim reporting date. o Performing a valuation that uses significant unobservable inputs becomes more challenging in the current environment and, given the current market volatility, extrapolations based on the balance at the previous annual reporting date may not be appropriate. o Preparers may need to consider impact and disclosure of sensitivities of critical assumptions/inputs.
		• **Inventories** o **Net realizable value:** IAS 2 Inventories requires an entity to measure its inventory at the lower of cost or net realizable value and update its estimate of the net realizable value at the interim reporting date. The COVID 19 pandemic outbreak may affect this estimate.
		• **Current/non-current classification**

		- Entities should consider the classification of assets and liabilities as current or non-current at the interim reporting date. - For example, a loan for which provisions are breached at the interim reporting date, such that the liability becomes repayable on demand, would need to be classified as current, unless the entity obtained a waiver before the interim reporting date.

2.0 IMPORTANT REMINDER

The Board would like to urge all financial report preparers to consider the impact of Corona virus (COVID-19) on interim and annual financial reports arising from this major global risk so as to help users in their assessment for accountability and decision making.

Furthermore, the Board reminds preparers, auditors, other stakeholders and the general public to adhere to all Government's directives on how to control and avoid the spread of Coronavirus (COVID 19).

For more information, contact:

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