

Dear Audit Committee Members,

The Covid-19 pandemic has set us on a journey for which there is no roadmap or guidance. While there is no clear playbook to show us the way, it does not mean that we have to be without a compass to help us navigate these unprecedented times. The Covid-19 pandemic is a perfect example of an emerging risk that comes from left field that we need to deal with urgently. It challenges us to consider whether our risk management frameworks adequately build in an ability to respond to such 'Black Swan' events – and the interconnectivity of risks under these circumstances.

Given the urgency, we believe it would be appropriate to create a simple aide memoire for audit committees to use as you navigate these challenging times. To do this, we have put together a high-level framework drawing on the input we have obtained from most of the professional firms and other global publications thus far. We caution that this list does not cover all the matters that you are dealing with but has been prepared as a quick guide to assist.

➤ **Health, Safety and HR considerations**

- First and foremost, to consider the appropriateness of the entity's response plan to Covid 19 – with specific emphasis on the responsibility of the organisation to protect the lives and health of its employees and other stakeholders with whom they interact – both during lock down, and thereafter.
- Remote management is challenging so it is important to create a culture of inclusion.
- Constant and clear communication is critical but be careful of too many meetings.

➤ **Liquidity, Going Concern and Reckless Trading**

- As a priority, ensure that a full and proper consideration is given to the liquidity head room in the organisation and any other aspects which threaten the ability of the organisation to continue to operate as a going concern. Everything else becomes obsolete if the business does not have the liquidity to survive. A specific analysis of the organisation's ability to continue to trade without falling foul of reckless trading legislation during these times.

➤ **Governance implications**

- To recognise that ultimate responsibility resides with the Board and Audit Committee on key matters – be prepared to work in different ways but ask the tough questions and continue to live the values of ethical leadership during these challenging times.
- To consider the impact of the lock down on the ability of the governance forums to operate effectively during this period and to utilise every available digital channel to keep abreast of developments
- To consider the need for increased interaction and communication - both with management and amongst the board members during these times
- To consider the possible implications for upcoming AGMs and other key stakeholder meetings – including the practicalities and legal ramifications of holding effective electronic shareholder meetings.
- Consider allocating specific roles to Board members and Executives, for networking and broader industry-wide participation across various initiatives, and for this feedback to be shared with the broader group timeously...

➤ **Strategic and Economic Implications**

- To ensure that the organisation has a properly developed and considered Covid19 response and action plan – with regular updates and reporting to those charged with governance
- Full understanding of the specific economic implications to each entity – including an analysis of the implications of each stakeholder in the value chain (Financiers, Suppliers, Customers, Employees, Regulators etc) – and special arrangements that need to be put in place over the coming months
- To consider the adequacy of the business resilience and recovery plan during AND AFTER the crisis, including regular feedback and updates. Particular attention should be paid to the ability of the organisation to adhere to protocols and procedures in general and consultation on key decisions as they arise.
- Consideration of any beyond the norm role that the business can play to support the country's efforts during these challenging times.
- Consideration of interim measures the organisation can take to preserve as many jobs as possible during this time – without forgetting the full impact on all stakeholders – these could include the appropriateness of dividend declarations during such times, executive remuneration arrangements, alternative staff remuneration arrangements etc.
- Consider the ability / capabilities of the organisation to support governmental and central bank initiatives to support customers who are experiencing short term stress and inject liquidity into the economy.

➤ **Operational resilience (Including technology implications)**

- To consider the adequacy of the entity's systems to handle increased virtual working of all key staff members
- To consider the robustness of the entity's disaster recovery and continuity plans during the lock down and recovery periods
- To consider the possibility of increased cybercrime activities during this period – and the ability of the organisation to continue to manage this with reduced capacity or capability
- Consider the mitigating factors on new IT risks created by remote working
- To consider the increased risk of fraud in a more digitally enabled environment
- To consider end-to-end customer processes to ensure they remain resilient in the circumstances

➤ **Financial Reporting implications**

- Accounting implications
 - Assessing the specific economic implications of Covid-19 on the business, such as loss of revenues, impact of stock levels, debtor's ability to pay, ability to pay employees, impact on funding and liquidity levels, ability to settle with creditors when due including leases etc.
 - Assessing the impact on key areas of judgement in the financial statements – including
 - IFRS9 forward looking information included in models to calculate expected credit losses, and other fair value measurements
 - Key disclosures around the impact of Covid-19 on going concern analysis
 - Subsequent events analysis and related disclosures

- Impact of steadily worsening exchange rates
 - Impairment assessments relating to intangible assets and deferred tax assets.
 - Valuation of inventories
 - Fair value measurements
 - Onerous contracts provisions
 - Restructuring plans etc.
 - Tax considerations (in particular recoverability of deferred tax assets).
 - Impact of any government grants etc.
- Specific consideration of any operating restrictions such as compliance with financiers' covenants etc
 - Accounting implications of any Covid19-specific alterations of terms of business
- **Impact on lines of defence:**
- Implications of challenges experienced in operating first and second line internal controls - in particular whether and how key segregation of duty and authorisation controls have been able to continue to operate during this period; and other key controls that rely upon physical presence such as stock counts etc.
 - Implications of challenges experienced in operating third line of controls – Internal Audits – consideration of new Covid-19 risks as well as the impact of any reduced ability of internal audit to execute required or key reviews during this period
 - Implications on the firm's ability to continue as a going concern taking into account profitability and liquidity considerations
 - Implications of challenges experienced in the execution of the external audit. These could include:
 - As simple as attendance at stock counts; or as complex as
 - How auditors will comply with auditing standards regarding the walkthrough of processes and controls (although auditors should be challenged around their ability to utilise readily available technology to do even this)
 - Need to proactively engage with auditors and management to identify novel solutions to challenges in order to keep doing as much as possible throughout this period.
- **Regulatory implications**
- To formally consider the need for and implication of utilising any of the specific regulatory relaxations currently being provided – such as those from the Prudential Authority regarding regulatory reporting, the FSCA and the JSE regarding reporting timelines and the IRBA regarding Reportable Irregularities
 - To ensure proper and proactive consultation with all key regulators in the event of key uncertainties or challenges being experienced.
 - Note: JSE has offered extensions to reporting deadlines for year-end reports, but not yet for interim reporting.
 - Ensuring ongoing compliance with regulations within prescribed timelines. Understanding whether a digital only operating model would deliver all regulatory requirements (governance, oversight and reporting).

We acknowledge, with thanks, permission for the use of their material from the Big 4 audit firms, SAICA, the IOD, and guidance from Mr. Bernard Agulhas, the CEO of IRBA. Below we include a link to each of their external websites which provides valuable updated information should you so require. The IOD has also produced an initial aide memoire for board members, the link to which is attached below – and it is important to note that the King IV committee of the IOD is also convening an ad hoc grouping to consider any additional guidance that they may wish to produce on this matter. It is heartening to see how much co-operation is fostered when this is needed the most.

Management will need to remain flexible throughout this crisis, daily changes to this situation will require them to adapt in some way. The audit committee, and in fact board as well, will need to be nimble, focused, responsive and sensitive to effectively see the organisation through these distressed times.

These are challenging times for our country and SA Inc but your companies need your guidance and wisdom more than ever before. I trust that this small intervention will assist as you provide an important governance role during these difficult times.

Please stay safe, stay home and stay positive

Kind regards
Stanley Subramoney
Chairman of the Audit Committee Forum

Source:

[Insights area on KPMG.com](#)

https://www.ey.com/en_gl/covid-19

<https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19.html>

<https://www.deloitte.com/covid-19>

<https://www.accountancysa.org.za/covid-19/>

<https://www.irba.co.za/guidance-for-ras/general-guidance/covid-19>

[https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/49D62EF3-F749-403C-BE47-73C50F27F30F/Guidance for Boards - Crisis Management.pdf](https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/49D62EF3-F749-403C-BE47-73C50F27F30F/Guidance%20for%20Boards%20-%20Crisis%20Management.pdf)