Effects of the spread of the corona-virus on the financial statements as of 31.12.2019 and their audit

Contents

Part 1

1. Preliminary remarks

The novel coronavirus (SARS-CoV-2) continues to spread in many countries. According to information from the German government and the Robert Koch Institute, the pathogen is expected to spread worldwide. In Germany, too, an increasing number of cases of the disease are becoming known. This development is already having an economic impact on companies, for example due to restrictions in production and trade or travel restrictions. Companies or groups with business relations in the currently most affected countries China, South Korea or Italy are (initially) particularly affected. The economic effects of the coronavirus also have consequences for accounting (HGB/IFRS) and for the audit of the financial statements and management reports of the affected companies and groups. Since further developments cannot be foreseen in detail, the information available and its possible effects must be constantly reviewed by the corporate bodies responsible for preparing the financial statements and management report and by their auditors.

2. Effects on accounting as of the reporting date 31.12.2019

Value clarification vs. value justification in HGB accounting

It is questionable whether any accounting consequences resulting from the now almost global spread of the coronavirus (e.g. the need to make unscheduled write-downs or form provisions) should already be taken into account in the annual or consolidated financial statements under commercial law to be prepared as of 31 December 2019 or only in financial statements for subsequent periods. The decisive factor here is whether the causes of the spread and the resulting economic consequences were already invested before this date, but were only known between the balance sheet date and the completion of the preparation of the financial statements. In this case, the corresponding effects on the balance sheet (valuation and recognition) would still have to be reflected in the (consolidated) balance sheet and the (consolidated) income statement as of 31 December 2019 in accordance with Section 252 (1) No. 4, half-sentence 1 (possibly in conjunction with Section 298 (1) HGB, because the information subsequently obtained is to be classified as value-enhancing. If the reasons for a fact relevant to the balance sheet only occur after the balance sheet date, a so-called value-justifying event occurs, which is classified as a "value-clarifying event" on the basis of the balance sheet date principle (§ 252 para. 1 no. 3 (if applicable in conjunction with § 298 para. 1) HGB) is only to be taken into account in the (consolidated) balance sheet and (consolidated) income statement of the following period.

When qualifying the effects of the coronavirus as of 31.12.2019 as value-enhancing or value-based, it must be taken into account that the spread is an ongoing process and not a point in time event. According to current knowledge, the first cases of infections in humans became known as early as the beginning of December 2019, but at that time they were (still) regionally limited. Since it was only the sudden spread of the infections that led to the current economic effects (e.g. closure of plants and the resulting impairment of supply and sales processes) and this spread did not occur until January 2020, the IDW is of the opinion that it can generally be assumed that the occurrence of the coronavirus is to be classified as a global danger and that the consequences for the balance sheet will only be taken into account in financial statements with a cut-off date after 31 December 2019.

Events after the balance sheet date to be considered vs. not to be considered in IFRS accounting

Events that provide (further) substantive evidence of *conditions already* existing on the balance sheet date must be taken into account (*adjusting events*) and require corresponding amounts to be adjusted in the financial statements (IAS 10.3(a) in conjunction with IAS 10.8). In contrast, events that indicate circumstances that occurred after the balance sheet date may not be taken into account in the balance sheet and income statement (*non-adjusting events*) (IAS 10.3(b) in conjunction with IAS 10.8). IAS 10.10). For the qualification of the effects of the spread of the coronavirus as an event that must be taken into account or that is not to be taken into account after the balance sheet date for the IFRS individual or consolidated financial statements to be prepared as of December 31, 2019, the above comments on commercial law apply accordingly.

A deterioration in the net assets, financial position and results of operations after the balance sheet date may be an indication that it is necessary to review whether the preparation of the financial statements is still appropriate under the going concern assumption (IAS 10.15). For this purpose, the enterprise must consider all available information about the future (at least, however, for the first twelve months after the balance sheet date) (IAS 1.26).

Subsequent reporting in the (consolidated) notes in HGB and IFRS accounting

If the developments around the coronavirus are classified as value-justifying according to the above considerations, a report on this is to be made in the (consolidated) notes to the financial statements under commercial law as of 31 December 2019, if a "matter of particular importance" according to § 285 No. 33 or § 314 (1) No. 25 HGB exists. The nature and financial effects of the transaction must be disclosed in this supplementary report. Whether the spread of the coronavirus (and the associated economic consequences) is of particular importance for the respective company, must be decided on a case-by-case basis. In general, an event is of particular importance if its effects are likely to influence the picture conveyed by the financial statements as of the balance sheet date and, without subsequent reporting, the development after the balance sheet date would be judged significantly differently by the users of the financial statements. The effects must also be assessed to determine whether, if the going concern assumption is maintained, there is nevertheless a material uncertainty in connection with events or circumstances that could cast significant doubt on the company's ability to continue as a going concern ("going concern risks"). In this case, a report must be made in the financial statements, stating the most important events or circumstances (IDW AuS 270 (Revised), point 9). It is advisable to include this reporting in the supplementary report.

According to IFRS, if a non-adjusting event is material, the nature of the event must be disclosed (IAS 10.21(a)). In accordance with IAS 10.21(b)), an estimate of the financial effects or the fact that such an estimate is not possible must also be disclosed in the notes.

Inclusion of subsidiaries in the consolidated financial statements

According to Section 296 (1) No. 2 HGB, a subsidiary need not be included in the consolidated financial statements by way of full consolidation if the information required for the preparation of the consolidated financial statements cannot be obtained without unreasonably high costs or unreasonable delays. In the opinion of the IDW, the effects of the spread of the corona virus may in individual cases meet the requirements for an unreasonable delay within the meaning of the regulation if the so-called "reporting packages" cannot be delivered to the parent company or can only be delivered with a considerable delay, e.g. due to the loss of personnel in the accounting department of the respective subsidiary, and if no suitable extrapolation of already available financial information is possible and no preliminary figures are available. Pursuant to § 296 (3) HGB, the use of the consolidation option must be justified in the notes to the consolidated financial statements.

Within the framework of IFRS accounting, there is no explicit consolidation option comparable to the provisions of section 296 (1) no. 2 HGB.

(Group) management report

The developments surrounding the coronavirus will in many cases be reflected in the (Group) management reports for the financial years ending on 31 December 2019, at least in the risk reports. In principle, a reporting obligation exists in the risk report if the possible further developments could lead to negative deviations from forecasts or targets of the company, if this is a significant individual risk, and otherwise no accurate picture of the Group's risk situation is conveyed (see GAS 20.11 and 20,146 et seq.; for the requirement to take account of new risks that have arisen after the end of the reporting period, see DRS 20.155). In particular, risks threatening the existence of the company must be reported (GAS 20.148), if necessary by reference to the corresponding information in the financial statements.

If, as a result of current events, management's expectations of the forecast performance indicators have already changed, this must be appropriately reflected in the forecast report. GAS 20.130 provides for the forecast types of point, interval or qualified comparative forecast to be included in the (Group) management report. According to GAS 20.133, companies must, as an exception, "[w]hen special circumstances lead to an unusually high degree of uncertainty with regard to future developments due to general economic conditions and therefore significantly impair the ability of companies to make forecasts, [...] [instead, only] comparative forecasts or the presentation of the expected development of the financial and non-financial performance indicators used for internal management in various future scenarios, stating their respective assumptions". In the opinion of the IDW, companies whose activities are significantly affected or reasonably expected to be affected by the spread of coronavirus may qualify for this relief. However, it is not permissible to dispense with forecast reporting altogether.

3. Effects on the audit of financial statements as of 31.12.2019

Effects on the audit process and communication requirements

The global spread of the corona virus may have consequences for the audit process, including the auditor's communication and reporting obligations. It is recommended that the auditor discusses management measures and the effects of the spread of the virus on the business activities and thus, if necessary, on the (consolidated) financial statements and the (Group) management report with the management as soon as possible. Due to the possibly high speed of the virus spreading, an assessment of the effects by the preparation body and audit procedures by the auditor must be carried out as soon as possible after the date of the audit opinion (cf. IDW AuS 203 (Revised) para. 12).

In addition, depending on the significance of the matter for the company's business activities, there are also communication obligations for the auditor with the supervisory body, for example if effects on the audit opinion are to be expected or if the spread of the corona virus represents an event that casts significant doubt on the ability of the auditor to of the company for the continuation of its business activities (see IDW AuS 470 (Revised), para. 21; IDW AuS 270 (Revised), para. 34).

In the case of audits of consolidated financial statements, it may be necessary to coordinate the group audit team even more closely with the component auditors. It must be ensured that the Group audit team is informed of the effects of the spread of the virus on the business activities of the relevant subdivisions, insofar as they are of significance for the consolidated financial statements, the Group management report and the information on events after the balance sheet date in the notes (see IDW AuS 320 (Revised), paragraphs 37 f. and A41). It may be advisable to supplement the group audit instructions in this regard. If, in addition, planned site visits cannot be carried out by the group audit team due to travel restrictions, the increased use of communication techniques such as video conferences should be considered. In addition, in the event of personnel bottlenecks on the part of component auditors, for example, consideration should be given to having certain audit procedures performed by the Group audit team, provided that the information required to generate audit evidence can be accessed centrally.

Assessment of any consequences for the audit opinion

Consequences for the audit opinion may arise if the presentations in the notes and/or management report do not meet the requirements set out above. A modification of the audit opinion on the (consolidated) financial statements must be made, for example, if the information required in the notes on events after the balance sheet date in the opinion of the auditor is omitted and this is a material misstatement of the financial statements, taking into account the relevance of the decision for the addressees (see IDW AuS 250 (Revised), point 28; IDW AuS 405, point 10 et seq.). A modification of the audit opinion on the (Group) Management Report may result in particular if, in the opinion of the auditor, the effects of current developments on risk and forecast reporting are to be presented in the (Group) Management Report and the presentation is omitted or not appropriate.

In the case of audits of the consolidated financial statements, a modification of the auditor's opinion may also be considered in cases where the information required for the preparation and audit of the consolidated financial statements and the Group management report cannot be obtained in a timely manner from the subsidiaries (or business segments) located in the regions concerned and, as a result, inclusion is based on (statistically extrapolated, if applicable) prior-year figures.

In addition, a modification of the audit opinion due to an audit impediment may be considered if the statutory auditor is unable to obtain sufficient appropriate audit evidence about the financial information of the audited entity or the financial information (estimated if any) of subsidiaries. Depending on the scope of the possible effects on the (consolidated) financial statements and the (consolidated) management report, this may possibly result in a qualified audit opinion or even in a declaration of non-audit of the (consolidated) financial statements and/or (consolidated) management report.

If the spread of the coronavirus is associated with a risk that is not only latent, but also jeopardizes the continued existence of the company (or the group or a significant group company), this must be discussed separately in the auditor's report (Section 322 (2) sentences 3 and 4 HGB; separate section entitled "Significant uncertainty in connection with the continuation of business operations", cf. IDW AuS 270 (Revised), para. 29). If an existing risk threatening the existence of the company is not adequately indicated in the (consolidated) financial statements and (consolidated) management report, the auditor must modify the corresponding audit opinion in this respect (cf. IDW AuS 270 (Revised), para. 31). In extreme cases, the spread of the virus has such a significant negative impact on the business activities of the company or group to be audited that the accounting principle of continuing operations (going concern premise) can no longer be maintained in the opinion of the auditor. If, in this case, the financial statements have nevertheless been prepared using the going concern premise, the auditor must disregard his audit opinion in accordance with IDW AuS 405 (cf. IDW AuS 270 (Revised), para. 28).

Part 2

1. Preliminary remarks

On 4 March 2020, the IDW published a first technical note in which the effects of the corona pandemic on selected aspects of the HGB and IFRS accounting for financial statements and management reports as of 31 December 2019 and their audit were presented. The first IDW Technical Note was published on the IDW website at *https://www.idw.de/idw/im-fokus/coronavirus.*

This document builds on or supplements this reference, including the effects on financial statements and management reports for reporting periods ending *after* 31 December 2019, and more detailed guidance on the audit process. Insofar as the statements in the note dated 4 March 2020 are also relevant for reporting periods ending after 31 December 2019, reference is made to them in order to avoid repetition.

The corona pandemic has an impact on various accounting issues, the disclosures in the notes and the reporting in the management report. Selected aspects of HGB (Section 3.) and IFRS accounting (Section 4.) in financial statements and management reports with a reporting date after 31 December 2019 and those with a reporting date on 31 December 2019 are dealt with below. It should be clarified that the following explanations can only be of a general nature and that the appropriate handling of the facts to be assessed is determined by the specific circumstances of the individual case. The preparers and auditors are likely to be confronted with discretionary decisions to an even greater extent than before. The statements made apply in principle both to individual company accounting and to consolidated accounting. Special features of HGB consolidated accounting are dealt with in a separate section. No industry-specific questions of accounting and auditing are dealt with.

Section 5. sets out the impact of the corona pandemic on the review process. This section discusses special features in the identification and assessment of risks of error, the effects of risk assessment on further audit procedures including the assessment of the going concern premise, how to deal with limitations in obtaining audit evidence, communication with those responsible for monitoring, and the reporting of the auditor and subsequent duties of the auditor.

Practical questions arising from the digitisation of office organisation are dealt with in the catalogue of questions and answers "Digital audit report and audit opinion". These include in particular questions about signing electronic audit reports and audit certificates, the use of electronic annual accounts and certificates, remote signatures or the combination of paper and digital documents.

2. Consideration of public support measures

When assessing the assumption of the continuation of the company's operations, the forecasts required for the valuation of asset and liability items, as well as forecasts in the management report, concrete and reliable statements by the Federal Government or the state governments on the implementation of support measures or the granting of public support services must be taken into account, even if the necessary legal steps are still pending at the time the audit certificate is issued, as their implementation can be expected. The consideration of such measures must be explained in the notes or management report.

3. Commercial law accounting

3.1. Effects on reporting periods ending on and after 31.12.2019

3.1.1. Cross-item accounting policies

Consistency of recognition and measurement

In accordance with Sections 246 (3) Sentence 1, 252 (1) No. 6 HGB, the recognition and measurement methods applied to the previous annual financial statements, including the exercise of discretionary powers, must be retained (principle of consistency). In justified (i.e. objectively justified, not arbitrary) exceptional cases, however, deviations from this principle are permitted (§ 252 (2) HGB). This is to ensure that the person preparing the balance sheet can adapt to changed circumstances by using a different accounting method. This primarily covers such changes in circumstances which the preparer of the financial statements has not brought about himself or which he cannot otherwise avoid. In general, breaches of the principle of consistency are permissible if they provide a better insight into the asset, financial and earnings situation. In addition, the principle of consistency may also be broken through in other circumstances, for example, if a deviation is necessary in order to pursue tax objectives (cf. *IDW RS HFA 38*, paragraph 15). If necessary, the initiation of otherwise dangerous reorganisation measures could also be considered as a justification for the breach of the principle of continuity.

The consequences of the coronavirus are undoubtedly a serious exogenous event, with similar effects both on the companies themselves and on their environment. As far as this leads to a considerable impairment of development or even a crisis, an adjustment of the previous balance sheet policy is possible under certain circumstances. This applies, for example, if the previous accounting policy has led to the creation of hidden reserves and this is to be avoided from now on. Breaches of the principle of consistency must be disclosed in the notes and justified (§ 284 (2) No. 2 HGB). Consistency with the other disclosures in the notes (see sections 3.1.2. and 3.2.5.), but also in the management report (see section 3.1.3.), must be ensured.

There is no breach of the principle of consistency if findings induced by the corona pandemic are (must be) used in the context of measurement decisions, for example with regard to the determination of unscheduled depreciation in financial statements with a reporting date after December 31, 2019 (cf. the comments on the individual balance sheet items in Section 3.2.).

Discontinuation of the assumption of the continuation of the company's operations and risks threatening the existence of the company

If the effects of the corona pandemic mean that it can no longer be assumed that the company will be able to continue its business operations (Section 252 (1) No. 2 HGB), the financial statements must be prepared in accordance with the provisions of *IDW RS HFA 17 (e.g.* valuation from a liquidation perspective), and the going concern assumption must be abandoned. Whether or not preparation on the basis of the going concern premise is justifiable or no longer justifiable depends largely on the circumstances of the individual case (cf. Sections 5.1. and 5.2. for the assessment by the auditor). For the assessment of the appropriateness of the going concern assumption, an exception to the reporting date principle applies. Accordingly, the financial statements must be prepared under the assumption of a going concern even if the reason for the departure did not occur until after the balance sheet date.

If the financial statements can (still) be prepared on the basis of the going concern assumption, but significant uncertainties nevertheless exist in connection with events or circumstances that could cast significant doubt on the ability of the company to continue as a going concern (= risks threatening the existence of the company within the meaning of *IDW AuS 270 (Revised)*), the preparer of the financial statements must disclose this fact and the planned handling of these risks in the appendix - or, if no appendix is included, e.g. below the balance sheet. In addition, if a management report is prepared, the risks to the company as a going concern must be reported in the management report; reference can be made to the corresponding statements in the notes.

For the consideration of public support measures when assessing the reasonableness of the assumption of the continuation of business activity, see Section 2.

3.1.2. Disclosures

With regard to the subject of the supplementary report in the notes, reference is made to the note dated March 4, 2020 (p. 2 f.).

3.1.3. Management Report

For the special features of risk and forecast reporting in times of corona pandemie, reference is made to the corresponding comments in the note dated 4 March 2020.

When preparing the forecast report and the risk and opportunity report, any knowledge and events relevant to the forecast and risk report that are obtained or occur between the time of the (in this case only provisional) completion of the preparation of the management report and the issuing of the audit certificate must be taken into account in the management report.

For the consideration of public support measures in the preparation of the forecast report and the risk and opportunity report, see section 2.

3.1.4. Preparation and publication of the annual financial statements

Pursuant to Section 264 (1) sentences 3 and 4 HGB, the annual financial statements and management report of a corporation must be prepared in the first three months of the financial year for the previous financial year; for small corporations, this period is extended to a maximum of six months. The effects of the coronavirus can cause delays in the preparation of the annual financial statements for various reasons (e.g. loss of accounting personnel, no access to relevant information, etc.) This can result in the de facto impossibility to meet the statutory deadlines. The German Commercial Code does not provide for explicit sanctions in the event of violations of the preparation deadlines. According to § 283b para. 1 no. 3 letter b StGB, however, a violation of the preparation periods is punishable by law if the legal representatives have stopped payments, insolvency proceedings have been opened on the assets of the company or the application for opening has been rejected due to lack of assets. According to the prevailing opinion, the criminal offence is not applicable if it is impossible to prepare annual financial statements in a timely manner through no fault of the company.

Pursuant to § 325 (1a) sentence 1 HGB, the annual financial statements of a corporation must be published no later than one year after the balance sheet date. For capital market-oriented corporations within the meaning of Section 264d HGB, which are not corporations within the meaning of Section 327a HGB, a shortened period of no more than four months applies in accordance with Section 325 (4) sentence 1 HGB. Violations of the disclosure obligations are sanctioned with a fine in accordance with section 335 (1) and (1a) HGB. As a result of the delays in the preparation of the annual financial statements, violations of the disclosure deadlines are also obvious. However, pursuant to § 335 (5) sentence 1 HGB, in the event of an impediment to comply with the statutory obligations (for disclosure) through no fault of the company, an application must be made to the Federal Office of Justice for a reinstatement to the previous status. The far-reaching and unforeseeable consequences triggered by the coronavirus should constitute such a hindrance through no fault of one's own.

However, it should be borne in mind that not every existing infringement may justify the use of the derogation on the basis of a previous failure to draw up or disclose. If the legal obligations have not been fulfilled in the past for reasons not objectively condemned by the coronavirus, the sanctions provided for by law may be imposed.

3.2. Other effects on reporting periods ending after 31.12.2019

3.2.1. Cross-item accounting policies

Value clarification and value justification

In the opinion of the IDW, it is generally to be assumed that the spread of the coronavirus as a worldwide danger after 31 December 2019 is to be classified as a value-determining factor and therefore the consequences for the balance sheet are only to be considered in financial statements with a cut-off date after 31 December 2019 (§ 252 (1) No. 3 HGB). The erratic expansion of infections, which led to the current economic effects, occurred from January 2020 onwards (cf. note of 04.03.2020, p. 2). For financial statements with a reporting date after December 31, 2019, it must therefore be assumed that the current knowledge about the consequences of the coronavirus gained after the reporting date must be regarded as value-enhancing and taken into account in the accounting (Section 252 (1) No. 4 HGB). The extent to which a value adjustment is still possible after December 31, 2019 with regard to the general economic effects on the company depends on the circumstances of the individual case. In general, it can be assumed that the further the reporting date after December 31, 2019, the less likely it is that a value justification should be assumed. As of March 31, 2020, it is regularly assumed that the pandemic must be taken into account in the financial statements.

Extensive measures have already been implemented or announced to support national and international economies, with direct and indirect aid for businesses. Insofar as this results in direct claims by the companies, e.g. a claim for liquidity support or a subsidy from a public authority, these are only to be recorded in the balance sheet after a binding commitment has been made. Non-repayable grants, to which no conditions of future conduct are attached, can be directly and fully recognized in income after their binding approval (see *IDW St/HFA 1/1984* on government grants).

Crisis-related management decisions, such as those regarding personnel or working time measures, are generally only to be taken into account in the balance sheet after a binding decision has been made (for an assessment of the continuation of the company's activities, see section 3.1.1. and for the consideration of restructuring measures, see immediately).

Retrospective consideration of reorganisation measures in the balance sheet

In breach of the cut-off date principle, it is considered permissible, in application of the legal concept underlying Section 234 of the German Stock Corporation Act (AktG), and in accordance with the opinion (and under certain conditions) predominantly held in the literature, to take account of the accounting consequences of a restructuring measure implemented after the cut-off date in the financial statements as of that date. The admissibility is cumulatively subject to the condition that no distributable (balance sheet) profit arises from the reorganisation measure, that the measure has become legally effective at the latest at the time of the completion of the preparation of the financial statements and that it is explained in the notes.

It should be noted that (irrespective of the point in time) a subordination pronounced by a creditor - even if this subordination is made to the rank of section 39 (2) InsO - does not lead to the derecognition of the liability in question in the commercial balance sheet.

Valuation units

Where the option of forming so-called anticipatory valuation units has been used to date, i.e. future sales or procurement transactions that are highly probable to be expected to occur are combined as underlying transactions to offset opposing changes in value or payment flows from the occurrence of comparable risks with financial instruments as hedging instruments, it may now be necessary to dissolve such valuation units. This is the case if, in contrast to the time at which the valuation unit was established, it can no longer be assumed with a probability bordering on certainty that the expected transaction will actually take place or at the time previously assumed, due to the developments that have occurred. Only insignificant time delays are to be regarded as harmless.

Traditional", non-anticipative valuation units must also be reversed if a financial instrument included as a hedged item (in the case of a financial instrument with receivables character) or as a hedging instrument is to be classified as acutely exposed to default as a result of the effects of the corona pandemic.

When assessing valuation units formed in the past or the transactions on which they are based, it must be borne in mind that companies can in principle expect state aid. This should apply above all to those companies that have enjoyed a stable economic situation to date.

3.2.2. Asset item

Intangible and tangible fixed assets

In accordance with § 253 (3) sentence 5 HGB, non-scheduled depreciation of intangible assets and property, plant and equipment is required if the value to be added is expected to fall permanently below the book value. The general deterioration in the companies' earnings situation alone does not justify unscheduled depreciation.

Neither the determination of the fair value nor the criterion of durability are standardised by law. In practice, there are various equivalence values for the fair value (cf. e.g. *IDW S 5*). In principle, there are no particularities due to the current valuation situation, however, certain comparative values may be difficult or even impossible to determine due to changed market conditions, for example.

A presumably permanent impairment in the value of depreciable fixed assets is assumed if the fair value on the balance sheet date is below the value resulting from scheduled depreciation for a considerable part of the remaining useful life. In this case, more than half of the remaining useful life or a period of more than five years can be taken into account.

The following applies to the discontinuation or restriction of the use of installations:

- Assets that are temporarily shut down or used to a limited extent continue to be depreciated. In the case of permanently restricted use, additional unscheduled depreciation may be necessary.
- Permanently decommissioned installations are to be written down to their saleable value (in case of doubt the scrap value) at the time of decommissioning.

If the reasons for a lower valuation existing after an unscheduled write-down no longer exist at a later reporting date, a write-up is required (§ 253 (5) sentence 1 HGB).

With regard to the subsequent valuation of goodwill within the meaning of Section 246 (1) Sentence 4 of the German Commercial Code, the explanations on goodwill from capital consolidation in Section 3.2.6 apply accordingly.

Financial assets

Pursuant to § 253 (3) sentence 5 HGB, financial assets must only be written down in the event of an expected permanent impairment; if the impairment is not expected to be permanent, there is an option to write down the asset pursuant to § 253 (3) sentence 6 HGB. To the question,

There is no explicit legal answer to the question of whether an impairment that has occurred on the balance sheet date compared with the last book value is likely to be permanent. However, recognized rules have been developed for this purpose in practice.

For securities that are publicly traded (and that have a sufficiently long trading period until the valuation date), especially listed shares, the Insurance Committee (VFA) in *IDW RS VFA 2 in* conjunction with the reporting on the 149th session of the VFA has developed indicator criteria that can be used to operationalise the answer to the question of whether or not there is a probable permanent impairment. These criteria also apply to companies outside the insurance industry and must also be applied in the current situation. Accordingly, the impairment of such securities is considered to be probably permanent if either

a) the fair value (= market value/daily closing prices) of the security was permanently more than 20 % below the last book value in the six months preceding the closing date, or

b) the fair value of the security has been below the last book value for a period longer than one financial year and, in addition, the (simple) average of the daily closing prices of the security over the last twelve months is more than 10 % below the last book value.

If the fair value of financial assets, especially in the case of equity investments or shares in unlisted companies, is determined using a future profit method (capitalised earnings value or DCF method), it should be noted that the financial surpluses included in the valuation calculation are often likely to deteriorate compared to previous forecasts as a result of the effects of the corona pandemic. If this calculation results in a value that is below the previous carrying amount of the investment or shares, it must be assumed as a rule - i.e. in the absence of substantiated indications to the contrary - that the impairment is likely to be permanent and that a write-down is therefore necessary.

For the consideration of public support measures when determining the value of financial assets to be allocated, see Section 2.

Inventories

In accordance with § 255 (2) sentence 2 HGB, only appropriate portions of material overheads, production overheads and depreciation of fixed assets may be taken into account in determining the production costs, insofar as these are caused by production. Due to the effects of the coronavirus, temporary shutdowns or restrictions in use can lead to a considerable limitation of the capacity utilization of plants. The same applies if production processes, e.g. due to the interruption of supply chains, must in turn be interrupted. The costs attributable to these periods are not reasonable and not due to production. They may not be included in the manufacturing costs as so-called "idle costs" (see also *IDW RS HFA 31 n.F.*), but represent expenses of the period in which they are incurred.

Depreciation on inventories is to be carried out in accordance with § 253 (4) HGB. In the current situation, write-downs may result primarily from the complete loss of marketability, a lower turnover rate (marketability discounts) or increased storage costs as part of loss-free valuation. If the reasons for unscheduled depreciation no longer apply, a later reversal of the impairment loss is required in accordance with § 253 (5) sentence 1 HGB.

Receivables from current assets

Debtors under private law (in particular companies) could (have) run into payment difficulties as a result of the effects of the spread of the coronavirus, which has increased the risk of non-performance (or incomplete or delayed performance) of trade receivables (possibly significantly). This is to be taken into account by making write-downs to the "attributable" value (individual value adjustments) in accordance with § 253 (4) HGB. Reversals of impairment losses are required in accordance with § 253 (5) sentence 1 HGB.

For the consideration of public support measures when determining the value of claims to be included, see Section 2.

Consideration should also be given to increasing the general bad debt allowances on trade receivables not already individually impaired.

3.2.3. Liabilities

Provisions

With regard to both sales and procurement transactions pending on the balance sheet date, the Corona pandemic may result in the need to form provisions for impending losses. This is the case if the value of the service to be provided by the party preparing the balance sheet on the basis of a mutual contract over the entire remaining term of the contract is lower than the value of its claim for consideration (see *IDW RS HFA 4 for* details).

If the presumption of equilibrium between the value of the benefit obligation and the value of the consideration claim can no longer be maintained at the expense of the balance sheet as a result of the corona pandemic, it should be examined whether the underlying agreements contain so-called Material Adverse Effect (MAE) or Force Majeure clauses, to which the corona pandemic can be subsumed as force majeure. As a result, the obligation of the reporting entity to accept or deliver would be suspended and for this reason the obligation to recognize a provision for impending losses on the liabilities side would no longer apply.

If restructuring measures are adopted in response to the effects of the Corona pandemic, it must be considered whether the resulting obligations should already be taken into account in the financial statements in question in the form of a liability provision.

Liabilities

The corona pandemic is only likely to have an impact on the recognition of liabilities in exceptional cases (e.g. in the event of a novation associated with a rescheduling or modification of loan savings), because the settlement amount of the liability is otherwise not changed by the effects of the corona virus.

If any covenants cannot be complied with as a result of the Corona pandemic and if non-compliance entitles the creditor to call in a loan prematurely, this does not affect the valuation of the liability. However, there may be an impact on the remaining terms to be disclosed pursuant to Sections 268 (5) Sentence 1, 285 No. 1 Letter a HGB.

3.2.4. Deferred taxes

The recognition of deferred tax assets from temporary differences (§ 274 (1) sentence 2 HGB) requires that taxable income is available in the periods in which the differences are expected to be reduced, against which the differences can be offset. The same applies to deferred taxes from the use of tax losses carried forward in later periods. Deferred taxes from the use of losses carried forward may only be taken into account to the extent that they can be used within the next five years (§ 274 (1) sentence 4 HGB, DRS 18.21 f.). To the extent that tax relief can no longer be realised in future periods in accordance with these principles, corresponding value adjustments are required on deferred tax assets taken into account (cf. GAS 18.12 et seq.).

The forecast of future taxable income is to be derived from a planning calculation of the company. To the extent that future taxable income is eliminated or reduced by taking into account the effects of the corona virus and the deferred tax assets taken into account can therefore no longer be realized, corresponding write-downs are necessary.

3.2.5. Disclosures

The corona pandemic may affect the information in the disclosure notes in many ways. In particular, with regard to those regulations that require disclosure only on condition that it is necessary or significant for the assessment of the financial position (off-balance sheet transactions and other financial obligations pursuant to Section 285 No. 3 and 3a HGB), it may be necessary to reassess whether disclosure has now become necessary in view of a liquidity situation negatively affected by the corona pandemic.

If an unscheduled write-down of financial assets was not made because the impairment in value is not expected to be permanent (cf. also section 3.2.2.), the reasons for the omission of the write-down and the indications that the impairment in value is not expected to be permanent must be stated in the notes (section 285 no. 18 letter b HGB).

In the case of contingent liabilities entered into and the non-passivation of a provision, special attention should also be paid to the requirement to state the reasons for the estimate that the probability of a claim is not so high that the recognition of a liability is required (Section 285 No. 27 HGB).

3.2.6. Special features of consolidated accounting

Due to the effects of the corona virus, it may be necessary to test for impairment the goodwill or disclosed hidden reserves arising from the capital consolidation of subsidiaries (Section 301 HGB), insofar as they have not yet been amortized. If the value is not recoverable, an (unscheduled) write-down must be made. The same applies to shares in associated companies and joint ventures which were last reported in the consolidated financial statements in accordance with the equity method at a value that exceeds the carrying amount of the investment in the parent company's annual financial statements. Pursuant to Section 298 (1) of the German Commercial Code (HGB), the provisions of the annual financial statements apply accordingly to the assessment of a (non-scheduled) depreciation requirement.

In the current situation, particular attention must be paid to goodwill. In many cases, there is likely to be a risk that the fair value of goodwill from the acquisition of subsidiaries will be reduced as a result of deteriorating business prospects and also fall below the residual carrying amount previously reported. The procedures for determining any need for unscheduled amortization of goodwill from capital consolidation and shares valued at equity are described in detail in GAS 23 and GAS 26. If investments in subsidiaries, joint ventures or associated companies are subject to unscheduled amortization in the annual financial statements of the parent company (cf. Section 3.2.2.), this is an indication of any impairment of goodwill that may also exist in the consolidated financial statements.

Need for value adjustment. Where goodwill has been subject to unscheduled amortization, there is a strict prohibition on the reversal of impairment losses (Section 298 (1) in conjunction with Section 253 (5) sentence 2 HGB).

Reference is made to the note dated 4 March 2020 regarding the possible non-inclusion of a subsidiary by way of full consolidation in the consolidated financial statements in accordance with section 296 (1) no. 2 HGB (problems in obtaining information).

4. Selected notes on IFRS accounting

Events after the balance sheet date to be taken into account or not

The regulations of IAS 10 for distinguishing between events after the balance sheet date that must be taken into account and those that must not be taken into account are comparable to the differentiation under commercial law between events that increase or decrease in value and events that create value. For this reason, there should be no differences in principle between the commercial financial statements and the IFRS financial statements with regard to the assessment of the corona pandemic (cf. section 3.2.1. and note dated 4 March 2020, p. 2).

Revenue recognition

The prerequisite for revenue recognition under IFRS 15 is that the receipt of a counter-performance is *probable* (IFRS 15.9). The assessment must take into account both the intention and the ability of the customer to pay the corresponding amount. This applies in particular when new contracts are concluded. However, existing contracts must also be reassessed if facts and circumstances (corona pandemic) may have led to a significant deterioration in the ability of customers to pay the agreed consideration (IFRS 15.13 et seq.). Accordingly, revenue is not recognised if a customer is not (or no longer) able to provide the consideration.

The nature, timing and amount of any consideration promised by the customer affect the estimate of the transaction price. When determining the transaction price, the effects of variable consideration (e.g. price reductions, rebates, discounts, bonuses, performance-related payments, penalties, rights of return) must be taken into account (IFRS 15.48). Variable consideration also includes consideration where the entitlement is dependent on the occurrence or non-occurrence of a future event (e.g. compliance with certain (delivery) deadlines or achievement of specified sales targets). The amount of the variable consideration must be estimated at the beginning of the contract. Revenue may then only be recognized to the extent that it is *highly probable that* no significant reversal of the recognized cumulative revenue will be required (IFRS 15.56). The Estimates must be updated at the end of each reporting period to give a true and fair view of the circumstances at the end of the reporting period and of the changes that have occurred during that period (IFRS 15.59).

If the transaction price of a current contract changes (e.g. due to the occurrence of uncertain events or other changed circumstances) and thus the amount of the consideration, these changes in the transaction price are to be allocated to the contractual service obligations on the same basis as at the beginning of the contract. The amounts allocated to a fulfilled service obligation are to be recognised as revenue or revenue reduction in the period in which the transaction price changes (IFRS 15.87 et seq.).

Impairment of assets according to IAS 36

For all assets within the scope of IAS 36 (in particular intangible assets (IAS 38), goodwill (IFRS 3), property, plant and equipment (IAS 16) and investment property measured at cost (IAS 40)), the reporting entity must assess at each balance sheet date whether there is any indication *(triggering event)* of *impairment.* Such indications may arise from both external and internal information. These include the following in accordance with IAS 36.12 et seq.

- Significant changes that have occurred during the period that have an adverse effect on the company in the technical, market, economic or legal environment in which the company operates.
- The book value of the net assets of the company exceeds its market capitalisation.
- During the period, significant changes with an adverse effect on the entity have occurred in the use of an asset (e.g. asset retirement, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the originally expected date).
- Internal reporting provides substantial evidence that the economic performance of an asset is, or will be, worse than expected, including
    - actual net cash flows or operating gains or losses resulting from the use of the asset are significantly worse than originally planned;
    - cash flows for the acquisition of the asset or subsequent cash requirements for operating or maintaining the asset are significantly higher than those originally budgeted; or
    - a significant decrease in budgeted net cash flows or operating income or a significant increase in budgeted losses resulting from the use of the asset.

Against the background of the corona pandemic, it is to be expected that there are at least indications of impairment for the majority of the companies. If, for example, the carrying amount of a company's net assets exceeds its market capitalisation, an impairment test is generally required for *all cash generating units (*CGUs). However, exceptions are made in accordance with the requirements of IAS 36.15 and IAS 36.99 in cases where the recoverable amount of certain CGUs was significantly higher than the carrying amount in previous calculations and no events have occurred in the meantime that could have eliminated this difference. This must be assessed on a case-by-case basis. A blanket limitation of the impairment test to certain CGUs (e.g. those with goodwill) is not permitted (see *IDW RS HFA 40*, point 11).

If one of the above *triggering events* occurs, the *recoverable amount* must be determined. This is the higher amount from the comparison between the fair value1 less *costs of disposal* and the *value in use* (IAS 36.6, .18).

The cash flow forecasts for determining the value in use are based on reasonable assumptions by management, with greater emphasis on external indications. The basis for estimating cash flows is the current approved financial plans. Adjustments may be necessary because cash flows from future restructuring for which there is no obligation and from future capital expenditure may not be taken into account in determining value in use. In principle, these financial plans are to be used for a forecast period of a maximum of five years. The cash flow forecast must also be adjusted to take into account later events and developments that are not yet reflected in the current financial plans approved by management. In addition, certain events must also be taken into account which only occur after the balance sheet date in the period of time required to clarify the situation, but which provide information on circumstances and conditions that were already present on the balance sheet date (see *IDW RS HFA 40*, paragraph 18 et seq.). When extrapolating trend developments from the detailed planning period, which is usually done by extrapolating the cash flows from the (last year of the) detailed planning period(s) (perpetuity)), the growth rate used for the following years must be adjusted if necessary in order to adequately reflect the current economic conditions. For the consideration of public support measures in forecasting cash flows, see Section 2.

[1] For guidance on determining fair value under IFRS 13, see the following subsection.

Crisis-related adjustments may also arise for the determination of the capitalization interest rate. The capitalization interest rate is a pre-tax interest rate that reflects current market assessments of the fair value of money and the specific risks of the property for which the expected future cash flows have not been adjusted (IAS 36.55, .A15 f.). It is generally based on the weighted average cost of capital (WACC) and is derived from the capital structure of a representative peer group. The peer group used must generally be reviewed at each valuation date (see *IDW RS HFA 40*, point 47 et seq.).

Determining the recoverable amount is currently going to be a considerable challenge for companies and their auditors, as both the extent and consequences of corona pandemia are difficult to predict. It is therefore all the more advisable to explain management's assumptions and estimates in detail in the notes and, in particular, to include them in the presentation of sensitivity analyses on the effects of the corona pandemic (IAS 36.132, .134, IAS 1.125 et seq.).

Fair Value Valuations

The determination of fair value in accordance with IFRS 13 is required, among other things, for a number of balance sheet items (e.g. financial instruments, investment property when measured at fair value), but also in the context of the impairment test in accordance with IAS 36, measurements in accordance with IFRS 5 and various disclosures in the notes. Fair value is the price that would be received or paid on the measurement date for the sale of an asset or the transfer of a liability in an ordinary transaction *(orderly transaction)* between market participants (see IFRS 13.9).

If the valuation date and the date on which the fair value is determined are different, only price-relevant information on the valuation date is to be taken into account. If assets or liabilities are measured at fair value in the financial statements, events after the balance sheet date that must be taken into account within the meaning of IAS 10.3, 8 et seq. are included in the fair value determination (see note dated 4 March 2020, p. 2, and *IDW RS HFA 47*, point 3). The decline in the fair value of financial instruments between the balance sheet date and the date on which the financial statements are approved for publication is not an event requiring consideration, as this is generally not related to the nature of the financial instruments on the balance sheet date, but reflects circumstances that occurred subsequently (IAS 10.11).

Due to the orientation towards representative market participants, company-specific assumptions must be abstracted when measuring fair value (IFRS 13.2, .22 f.). Furthermore, the standard is based on an ordinary transaction (IFRS 13, Appendix A; IFRS 13.B43 f.). Actual prices that can be achieved in the context of a forced sale or transfer (liquidation, emergency sale, etc.) may differ from fair value. If necessary, information and *evidence* within the meaning of IFRS 13.B44(a) must be weighted.

The fair value of liabilities must take into account the risk of *non-performance (non-performance risk*; IFRS 13.42; IFRS 13, Appendix A). This includes the credit default risk of the reporting entity as well as all other risks that the reporting entity does not meet its obligations.

The accounting clerk may only use valuation methods that are appropriate in view of the circumstances of the individual case and for which sufficient data are available. As many observable input factors as possible and as few non-observable input factors as possible must be used (IFRS 13.61, .67). Several valuation methods are available within the valuation procedures. The selection of suitable valuation procedures and methods is influenced by the availability of relevant input factors and their relative subjectivity (IFRS 13.74 in connection with .61, .67). The IASB explicitly waives the requirement of a ranking of valuation methods (see IFRS 13.74, .BC142). Once a valuation method has been applied, it must always be retained (IFRS 13.65). In view of the current situation, it must be examined whether another valuation method would result in more reliable and relevant information. If this is the case, a change is permitted, which must then be accounted for as a *change in an accounting estimate* within the meaning of IAS 8 (IFRS 13.66 in conjunction with IAS 8.5, .32 et seq.).

IFRS 13 requires a three-level fair value hierarchy to ensure consistency and comparability in the context of measurement and disclosures in the notes. The classification is based on the level of the lowest significant input factor (IFRS 13.73). In particular, when using Level 1 input factors (i.e. unadjusted quoted prices in active markets), increased volatility and price declines on the capital markets as a result of the Corona pandemic will have a direct impact on fair value. The consequences of the corona pandemic will also be apparent in the indirect determination of fair value using valuation models and the parameters required for this (e.g. credit spreads, risk-free interest rate). Although Level 3 input factors are not based on observable market data, they must not contradict the assumptions of market participants (IFRS 13.89).

For example, the information in the notes to the financial statements must indicate the level at which the valuation is classified, and, if applicable, any reclassifications and their reasons. In the case of recurring fair value determinations that are assigned to level 3 of the hierarchy, a requires a detailed description of the sensitivity of the measurement of fair value to changes in unobservable input factors (IFRS 13.93). This should reflect the effects of the corona pandemic appropriately and individually for each company.

Financial instruments

If financial instruments are measured at fair value, the explanations on determining fair value in accordance with IFRS 13 in the previous section apply.

For financial assets measured either at amortised cost using the effective interest method or at fair value with changes in value recognised in other comprehensive income (OCI) (e.g. loans, bonds, bank assets and trade receivables), but also in the case of leasing transactions, active contract items within the meaning of IFRS 15 and loan commitments and financial guarantees that are not measured at fair value through profit or loss, valuation allowances for expected credit losses must be recognised (see IFRS 9.5.5.1; *IDW RS HFA 48*, paragraph 254 et seq.)

For all financial instruments previously allocated to Level 1 - with the consequence of determining the impairment in the amount of the expected 12-month credit losses - the reporting entity must check on the balance sheet date whether the credit default risk has increased significantly compared to initial recognition. If the credit default risk has increased significantly compared to initial recognition, the impairment loss for the financial instrument concerned must now be measured in the amount of the expected credit losses over the (remaining) term (Level 2, see IFRS 9.5.5.3).

In measuring the expected credit loss on a financial instrument, an undistorted and probability-weighted amount must be determined by evaluating a range of possible outcomes. The fair value of the money as well as reasonable and reliable information about past events, current conditions and forecasts of future economic conditions, provided that this information is available at the balance sheet date without unreasonable cost and duration, must be taken into account (see IFRS 9.5.5.17). The information used must include debtor-specific factors, general economic conditions and an assessment of both current conditions and the forecast development of conditions as of the balance sheet date. The analysis of the credit default risk is a holistic analysis taking into account numerous factors. The relevance of an individual factor and its weighting in comparison to other factors depends on the type of product, the characteristics of the financial instrument and the debtor, and the geographical region (IFRS 9.B5.5.16). Macro-economic factors (economic situation, monetary policy framework, stock market developments, etc.) generally have an indirect influence on the value of a single financial asset. Depending on the specific characteristics of the financial instrument under consideration and the debtor, the relevant factors must be selected and weighted appropriately (see *IDW RS HFA 48*, paragraphs 309, 311). When deriving scenarios for the analysis of credit default risk, the preparer of the financial statements must use assumptions and information that are consistent with the assumptions and information for the purpose of measuring expected credit losses. The methodology and assumptions used must be reviewed regularly in order to reduce deviations between the estimates and actual credit losses *(*IFRS 9.B5.5.52, *IDW RS HFA 48*, paragraphs 313, 316).

If, in addition to a significant increase in the credit default risk on the balance sheet date, there is also an objective indication of impairment, then in addition to determining the expected credit losses over the (remaining) term of the financial instrument, the interest recognition in subsequent periods must also be adjusted, i.e. interest income must be calculated in future on the basis of the net carrying amount, i.e. the previously recognised impairment/risk provision must be deducted from the carrying amount (level 3).

If, due to the Corona pandemic, contractual adjustments are subsequently agreed upon, e.g. of the term, interest rate, currency or other contractual modalities, which affect the contractual payments, modifications of the contractual payments within the meaning of IFRS 9 are present. These can lead to the derecognition of the existing financial asset and subsequent capitalisation of the modified financial asset (IFRS 9.B5.5.25 et seq.). In order to answer the question under which conditions a modification of the contractual payments causes the disposal of a financial asset according to IAS 8.11(a), the regulations for the substantial modification of the contractual conditions of a financial liability according to IFRS 9.3.3.2 are applied. Qualitative indicators for a substantial modification of the contractual payments are, among others, debtor changes, currency changes or contractual changes that lead to a violation of the cash flow condition as defined by IFRS 9.4.1.1(b) (e.g. the granting of equity conversion rights). Individual indicators do not in themselves necessarily lead to disposal. Rather, all circumstances of the individual case must be assessed in the context of the necessary overall consideration. The assessment on the basis of qualitative factors requires the exercise of discretion (see *IDW RS HFA 48*, paragraph A4 et seq. and paragraph A8 et seq.)

The regulations on modifications may also become relevant for financial liabilities (IFRS 9.3.3.2 et seq.). In addition, it is possible that the company preparing the financial statements may not be able to meet the interest and/or principal payments as contractually agreed or as provided for in loan agreements (covenants). If the lender is able to call in the financial liability immediately, a non-current financial liability must now be classified as current (IAS 1.69 et seq.)

In hedge accounting (especially cash flow hedges), it is necessary to assess whether the occurrence of transactions as a result of the corona pandemic can still be expected with a high degree of probability If the occurrence of an expected transaction is no longer highly probable, the hedging relationship must be terminated prospectively. All other changes in the fair value of the hedging instrument are then recognized in profit or loss. All amounts recognised in the cash flow hedge reserve remain there until the transaction occurs (IFRS 9.6.5.6 f. in connection with IFRS 9.6.5.12). If, on the other hand, (part of) a transaction is no longer expected to occur, the cash flow hedge (to this extent) is to be dissolved and the cash flow hedge reserve is to be reclassified accordingly to profit or loss for the period (IFRS 9.6.5.6, IFRS 9.6.5.12(b), IFRS 9.B6.5.26, IFRS 9.B6.5.27(b)). In principle, it may (not even as a substitute) to a correspondingly higher transaction volume in a later period, unless this was part of the originally planned and sufficiently identified expected transaction. However, the situation may be different in individual cases if the original transaction does not occur as planned due to an unforeseeable event, but is carried out sooner or later within a reasonable period of time and with sufficient certainty (see *IDW RS HFA 48*, paragraph 344 et seq.).

The valuation of financial instruments in accordance with IFRS 9 is probably one of the greatest challenges currently facing companies and institutions. In this context, it should be noted that the extensive government aid measures promise to relieve the economic situation of both the reporting companies and their contractual partners to an unprecedented extent. The IDW is currently working intensively on this issue and will publish a separate announcement on this subject shortly.

Provisions

A provision must be recognised if a past event has given rise to a present obligation (legal or constructive), it is *probable that an* outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (IAS 37.14). The amount to be carried as a liability represents the best possible estimate of the expenditure required to settle the current obligation. Estimates of the result and financial impact depend on the *judgement of* management. The underlying substantive information to be provided also includes all substantive information arising after the balance sheet date (IAS 37.36 et seq.).

No provisions may be recognised for future operating losses (e.g. due to the temporary cessation of business operations) (IAS 37.63). However, the expectation of future operating losses is an indication of a possible impairment of certain assets (IAS 37.65 in conjunction with IAS 36.14).

In the case of an insurance that may also cover all or part of the costs of the Corona pandemic, e.g. for costs of business interruption and/or shutdown, the recording of a corresponding claim should be examined. Whether and to what extent the damage incurred (and possibly still to be incurred) will be covered by the insurance company cannot yet be foreseen, especially for financial statements as of 31 March 2020. Such contingent claims may not be capitalised (IAS 37.10, .31 et seq.). The recognition of an asset (receivable) and the corresponding recognition of income may only be undertaken when the inflow of economic benefits has become *virtually certain (*IAS 37.35). If the inflow of economic benefits is at least probable, a note must be disclosed (IAS 37.89).

If, due to the Corona pandemic, the company is considering the sale or termination of a line of business, the closure of locations or even a fundamental reorganization with material effects on the character and focus of the company's business activities, a provision for restructuring costs may only be recognized if the general recognition criteria for provisions according to IAS 37.14 are met. A constructive obligation to restructure arises only if an entity has a detailed formal restructuring plan and has raised a valid expectation in those affected that the restructuring measures will be carried out by commencing implementation of the plan or by announcing its main features to those affected (IAS 37.70 et seq.). A restructuring decision by management prior to the balance sheet date alone does not give rise to a constructive obligation. If an entity begins to implement a restructuring plan only after the balance sheet date or does not announce its main features to those affected until after the balance sheet date, the recognition of a provision is generally not necessary; instead, disclosure is required in accordance with IAS 10 if the restructuring is material and it can be assumed under normal circumstances that the omitted disclosure would have influenced the decisions of the users of the financial statements (IAS 37.75). If a restructuring measure has an impact on employees (e.g. due to retraining, transfer or severance pay), the provisions of IAS 19 apply.

In the case of onerous contracts, the surplus of obligations is to be recognised as a provision. Onerous contracts arise when the unavoidable costs of meeting the contractual obligations are higher than the expected economic benefit (IAS 37.66 et seq.). Companies should examine whether contracts have become onerous as a result of the corona pandemic, e.g. because delivery and service promises can no longer be fulfilled.

Inventories

The cost of inventories includes all costs of purchase and production and other costs incurred in bringing the inventories to their present location and condition (IAS 2.10). Abnormal amounts of wasted materials, labour or other production costs should not be included in the cost of inventories. They should be recognised as an expense in the period in which they are incurred (IAS 2.16(a)).

The corona pandemic may also have an impact on the assessment of stockpiles. These are valued at the lower of cost or net realisable value (IAS 2.9). The acquisition or production costs are undercut, for example, if the selling prices of inventories have fallen or the estimated costs of completion or other costs incurred until sale have risen (IAS 2.28). These estimates must take into account changes in prices or costs that are directly related to events after the end of the reporting period, insofar as they clarify circumstances that already existed at the end of the reporting period (IAS 2.30).

Income taxes

For the recognition of deferred tax assets from deductible temporary differences or for the carryforward of unused tax losses, it must be probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised (IAS 12.24, .34 et seq.). Due to the corona pandemic, it is necessary to review the forecasts for future taxable income in addition to any changes in tax rates. For example, these must not contradict the assumptions made by management in the context of the impairment test in accordance with IAS 36. In certain circumstances, existing deferred tax assets may then have to be reversed.

5. Effects on the audit process

5.1. Special features in the identification and assessment of risks of error

Business activities and corporate environment

In determining and assessing risks of material misstatements or misrepresentations in connection with the spread of coronavirus, the auditor may have to consider the following aspects, for example (see *IDW AuS 261*, (Revised), para 13; *IDW AuS 350*, *(Revised)*, paras. 32 et seq:)

- For which types of business transactions, items, information and statements in the financial statements (completeness, valuation, disclosure, etc.) is the risk of material misstatement potentially increased in the company to be audited?
- Which categories of information (e.g. business performance, forecast report, opportunity and risk report) or, if applicable, individual disclosures or groups of disclosures that are of fundamental importance for the position of the company as a whole, and which types of statement (completeness, accuracy and presentation) are potentially affected in the (group) management report?
- Is it likely that the company or group or significant parts of the group will not be able to generate certain accounting-related information in a timely manner or in the required quality, e.g. due to staff shortages?
- Have the client's accounting policies changed, e.g. changed the exercise of discretion in recognising provisions?

Risks relating to the ability to continue as a going concern

The audit procedures for the auditor's risk assessment also include the identification of any events or circumstances that could cast significant doubt on the company's ability to continue as a going concern (cf. *IDW AuS 270 (Revised)*, para. 15 and A5). The effects of the coronavirus can lead to such events or circumstances. Examples of such events or circumstances are:

- As a result of current events, significant bad debt losses are to be expected and the Company's ability to access external sources of financing to meet its short-term financing needs is currently severely limited due to restrictive lending by banks and/or unfavorable market conditions for the issuance of equity instruments (possible countermeasures include the use of state liquidity assistance or grants).

- The analysis of current financial information points to unfavourable developments in key figures, which may lead to the breach of covenant clauses in loan agreements, which would trigger an obligation to repay substantial loan amounts prematurely. The same may be the case if it is likely that deadlines are exceeded within which financial information is to be made available to lenders. Possible contractual and/or legal success in obtaining a right to refuse performance may reduce the doubts raised about the ability to continue as a going concern.
- The company has temporarily stopped production activities due to staff or supply shortages of suppliers or as a result of the collapse of the main sales markets.
- The company's balance sheet may be overindebted due to lower selling prices of inventories and high stock levels, unscheduled depreciation of property, plant and equipment or intangible assets, bad debts or impairment of financial assets.

5.2. Effects of the risk assessment on further audit procedures, including the assessment of the going concern premise

Adjustment of audit procedures

In response to the assessed risks of material misstatements (including risks of material misstatements due to violations) in connection with the consequences of the spread of coronavirus, it may be necessary, for example, to adjust the audit activities in the following situations (see *IDW AuS 261 (Revised)*, paragraph 80 et seq.; *IDW AuS 350 (Revised)*, paragraph 45 et seq.):

- If the valuation of products in stock in financial statements for financial years ending after 31 December 2019 presents an increased risk of material misstatement due to production or sales difficulties, further audit procedures shall focus in particular on the audit objective "valuation of products" by obtaining information about open orders and prices in tenders and/or publicly available market prices. Analytical procedures based on a purely historical analysis of, for example, inventory turnover or inventory coverage, may be less relevant in the current situation.
- If there is an increased risk of material misstatement in financial statements for fiscal years ending after December 31, 2019, due to a targeted and one-sided influence on the accounting of estimated values, it may be necessary for the auditor to define and perform audit procedures for this risk, which may also include, for example, the performance of an independent estimate by the auditor, depending on the complexity of the determination of the estimated values, if necessary by involving experts from the auditor. Instead of relying on the audited assumptions of the management, the auditor can make its own assumptions for a comparison with the management's valuation (see *IDW AuS 314 (Revised)*, para. 61 et seq.).
- If the forecast of the development of sales volumes and prices in the (Group) management report has so far been based on a few well-founded assumptions in line

with the general expectations for

The complexity of the forecast data and the degree of forecast uncertainty may increase considerably due to the effects of the corona pandemic. In this case, the auditor will increase the extent to which these figures are dealt with (especially when gaining an understanding of the underlying assumptions and for the assessment of the effects of the forecast uncertainty by the legal representatives; cf. *IDW AuS 350 (Revised). In* addition, the Supervisory Board is to determine whether the management report contains alternative presentations and their effects in order to adequately present and explain the range of fluctuation of the developments expected by the company (cf. *IDW AuS 350*, (Revised), para. 66). For information on the requirements for management reporting, see the comments in the note dated March 4, 2020.

Assessment of the continuation of the business activity

If the effects of the coronavirus have led to events or circumstances which could cast significant doubt on the company's ability to continue as a going concern, additional audit procedures are required in order to assess the legal representatives' assessment of the company's ability to continue as a going concern or the existence of a risk threatening the existence of the company and the appropriateness of the relevant disclosures in the financial statements and management report (cf. *IDW AuS 270 (Revised)*, para. 21 et seq. and A18 et seq. in the individual *IDW AuS 270 (Revised)*, para. 21 et seq.) With regard to the effects of the spread of the coronavirus on the ability to continue as a going concern, the following audit procedures, for example, may be of particular importance:

- The Management Board and Supervisory Board are requested to submit a corresponding assessment taking into account all developments that have occurred after the balance sheet date, such as further restrictions on freedom of travel and freedom of movement and the associated new supply bottlenecks or sales problems, as well as specific and reliable statements by the Federal Government or the Federal Ministry of Economics and Technology. (e.g. assumption of wage costs and social security contributions from the Federal Employment Agency, state guarantees and liquidity assistance in the form of easier access to loans and guarantees at the KfW Bank, suspension of the obligation to file for insolvency) (see also section 2.); the same applies to any support measures in other countries in the case of significant foreign activities,
- Assessment of the legal representatives' plans for dealing with the bottlenecks, restrictions and sales problems that have arisen, also taking into account any existing contractual and/or statutory rights to refuse performance,
- Assessment of whether the conditions for an intended use of state aid measures are fulfilled (see the information sheet KfW-Unternehmerkredit Sonderprogramm 2020 037/047; IDW publishes a separate paper on the interpretation of individual requirements),
- Consultation of the company's legal advisors on the existence and relevance of so-called "material adverse effect" or "force majeure" clauses in existing contracts, which could possibly exempt the company or the contractual partner temporarily or

completely from their performance obligations due to the consequences of the corona pandemic,

- Reviewing loan granting clauses and loan agreements and determining whether they have already been breached,
- Assessment of whether the possibility of refusing payment exists due to legal and/or contractual provisions,
- Obtaining confirmations of the existence, legal validity and enforceability of contracts with related parties and third parties regarding the provision or maintenance of financial support and assessing their financial ability to provide the necessary funds.

5.3. Dealing with limitations in obtaining audit evidence

Limited ability of the company to generate accounting and audit relevant information

Due to access restrictions to company premises or personnel bottlenecks, e.g. in the accounting department of the company or group or significant parts of the group, the situation may arise that the auditor is prevented from obtaining certain audit evidence. In the case of financial statements for fiscal years ending after December 31, 2019, this may affect, for example, the inventory audit if access to the warehouse in question is blocked for third parties including the auditor. In this case, an attempt must first be made to obtain sufficient suitable audit evidence for the existence and nature of the inventories on the reporting date by means of alternative audit procedures (e.g. using counts already carried out during the year, carrying out subsequent control counts, providing evidence of the subsequent sale of certain inventories). If this is not possible, a modification of the audit opinion in the audit report due to an audit impediment may be considered (cf. *IDW AuS 301*, para. 23; *IDW AuS 405*, para. 15 et seq.)

The auditor is obliged to exhaust all reasonable possibilities for clarifying facts (§ 322 (5) sentence 1 HGB). If this is not possible in the current pandemic situation, it may be advisable to interrupt the audit. If the audit

If the company does not provide the necessary explanations and evidence, the auditor must assess whether there is an audit impediment which, according to general principles, must be taken into account in the audit opinion.

General restrictions on freedom of travel and movement

Even if the impossibility of carrying out certain audit procedures as planned is due to circumstances beyond the control of the company (in particular general restrictions on freedom of travel and movement), this may result in an obstacle to the audit (see *IDW AuS 400 (Revised)*, para. A12).

Restrictions on the part of the auditor

It is possible that staff shortages in the audit teams caused by the spread of coronavirus may prevent the auditor from carrying out certain audit procedures as planned. Group audits may also involve limitations on the part of component auditors; these limitations will be partially countered by the fact that audit evidence is generated centrally by the Group audit team by means of remote access to the subdivision's relevant systems.

The case that the statutory auditor is prevented from completing the final audit on time due to the current corona pandemic, or that it has even become impossible for him to carry out the final audit, must be assessed in accordance with the general principles of Section 318 (4) sentence 2 HGB (subsequent omission of the auditor). According to these principles, the court must, at the request of the legal representatives, the Supervisory Board or a shareholder, replace the auditor if the auditor has ceased to exist or is prevented from completing the audit on time. Prevention is possible in particular in the event of illness of the auditor and his audit assistants. As a rule, however, this should only be the case in the event of a prolonged absence. Quarantine measures that prevent the auditor or his audit assistants from fulfilling their duties in a timely manner are generally considered to be equivalent to prevention due to illness. Depending on the nature and duration of the restrictions imposed on the Statutory Auditor himself or his assistants, and the degree of digitalisation of the Audit Client, it may be possible to perform certain audit procedures remotely if the Audit Client provides access to its systems.

A reason for a discontinuation within the meaning of § 318 (4) sentence 2 HGB is also a termination of the audit engagement for good cause pursuant to § 318 (6) and (7) HGB. The auditor may be entitled to do so in individual cases if it has become impossible for him to carry out the audit. The fulfilment of the criterion "good cause" is not permissible due to the

However, it is necessary to apply a strict standard to the statutory auditor's function in the public interest, which is why termination will only be permissible if the restrictions that make it impossible to carry out the audit - such as those preventing timely completion - are likely to continue to apply for a longer period of time (not just a few weeks). In this case there is no impediment to the audit.

5.4. Communication with those responsible for monitoring

Depending on the significance of the coronavirus pandemic for the company's business activities, there are communication obligations for the auditor with those responsible for monitoring. This concerns the following aspects, among others:

- Information on the effects on the planned scope and timing of the audit; in this context, the significant risks identified in connection with the spread of coronavirus must also be addressed (cf. *IDW AuS 470 (Revised)*, para. 20 and A16 et seq.),
- Reporting on any significant problems that occurred during the audit when obtaining audit evidence (cf. *IDW AuS 470 (Revised)*, para. 21b and A26),
- Discussion of the coronavirus pandemic as a major source of estimation uncertainty if it is a significant qualitative aspect of the accounting practice of the company concerned (cf. *IDW AuS 470 (Revised)*, para. 21a),
- Exchange of information on any events or circumstances discovered as a result of the spread of the coronavirus which could raise significant doubts about the company's ability to continue its business activities (cf. *IDW AuS 270 (Revised)*, para. 34),

- if the spread of the coronavirus is to be regarded as a matter which, from the point of view of the auditor of a company of public interest within the meaning of Section 319a (1) sentence 1 HGB (so-called PIE), is to be treated as a particularly important audit matter (key audit matter), this matter is to be discussed with those responsible for monitoring (cf. *IDW AuS 401*, para. 20).

5.5. Auditor's Report

Reporting in the audit report

The described effects of the coronavirus pandemic on the company's accounting, including the management report, and on the audit process are also reflected in the audit report. This concerns the following aspects, among others (cf. *IDW AuS 450 (Revised)*, para. 26 et seq.):

- In the statement on the assessment of the situation of the legal representatives, the effects of the coronavirus pandemic on the course of business and the situation of the company will be emphasized by the auditor, whereby the assessment of the continued existence and future development of the company must be particularly considered in the current situation (§ 321 (1) sentence 2 HGB).
- If the consequences of the coronavirus pandemic impair the development or threaten the existence of the company, these facts must be described and the possible consequences resulting from them must be shown (Section 321 (1) sentence 3 HGB). When auditing PIE, Article 11 (2) (i) of the EU Auditing Directive requires the audit report to include a report on the measures taken into account in the assessment of the continuation of the company's activities (e.g. subordination agreements of shareholders, public sector aid commitments, etc.) (cf. *IDW AuS 450 (Revised)*, para. P35/1).
- The content of the report also includes any significant problems encountered during the audit, e.g. in obtaining audit evidence.
- Explanations on the exercise of discretionary powers are required in the section "Basis of valuation" in particular if there is considerable scope (e.g. due to a wide range of estimates) and if it can be determined that the individual accounting decisions were made within the permissible range, but in a targeted and one-sided manner in order to influence the overall statement of the financial statements (e.g. any form of one-sided influence on results) (cf. *IDW AuS 450 (Revised)*, para. 78 ez seq.). Thus, for example, measures for the targeted increase of the annual result in the event of a tense company situation due to the coronavirus pandemic must be reported. If this involves a change in the use of discretionary scope, this must be reported accordingly in the section "Changes in valuation principles".

Modification of the audit opinion in the auditor's report due to objections

A modification of the audit opinion in the audit report may be necessary if the financial statements contain misstatements that are individually or collectively material, or if the management report does not comply with the applicable accounting principles in all material respects. This also applies if the assessment of the plausibility of assumptions on which future-oriented financial information is based has led to objections which have a material effect on the financial statements or management report. The same applies if there is a risk that could endanger the company's existence and this risk is not adequately disclosed in the financial statements and management report (cf. *IDW AuS 270 (Revised)*, para. 31). If the financial statements are prepared under the going concern assumption even though the going concern assumption can no longer be maintained in the auditor's opinion, the auditor must refuse to issue an audit opinion in accordance with IDW AuS *405* (cf. *IDW AuS 270 as amended*, para. 28; cf. also the note dated 4 March 2020).

Modification of the audit opinion due to an audit impediment

Modification of the audit opinion as a result of an audit impediment may be considered if the statutory auditor is unable to obtain sufficient appropriate audit evidence concerning the financial information of the audited entity. However, the considerable uncertainty inherent in the forward-looking financial information (e.g. estimated fair values in financial statements for financial years ending after 31 December 2019, assumption of continuation, forecast in the management report, etc.) due to the dynamic development of the coronavirus pandemic need not in itself constitute an impediment to the audit. An audit impediment with regard to the assessment of forward-looking financial information exists if the auditor does not obtain sufficient suitable audit evidence for the purpose of assessing whether the underlying assumptions of the legal representatives are plausible, i.e. comprehensible, consistent and free of contradictions. In the current pandemic situation, the assessment of the plausibility of the underlying assumptions will, for example, relate to the following aspects:

- Are the assumptions up-to-date, e.g. with regard to the general restrictions on travel and movement that may be relevant for forecasting sales development?
- Are the conditions for the eligibility of any State liquidity aid included in the liquidity forecast fulfilled?
- Do the legal representatives act accordingly (e.g. actual application for state liquidity aid)?

Inclusion of a reference to a threat to the company's continued existence in the audit opinion

If there is a material uncertainty in connection with the continuation of the company's operations and if this is adequately disclosed in the financial statements and, if applicable, the management report, the audit opinion must contain a reference to the threat to the company's continued existence in a separate section entitled "Material uncertainties in connection with the continuation of the company's operations" with reference to the disclosures in the financial statements and, if applicable, the management report (section 322 (2) sentences 3 and 4 HGB; cf. *IDW AuS 270 (Revised)*, para. 29). The reference assumes that there is a going concern risk, the occurrence of which, although the information available at the time of the audit opinion (e.g. status of the spread of the coronavirus, government measures with effects on economic activity) and facts (e.g. actual application for government aid measures, etc.) indicate that a going concern risk does exist, is not expected to occur.by the company) is not so probable that a departure from the going concern assumption is necessary, but due to its possible effects and the not only latent probability of occurrence, appropriate information of the addressees of the financial statements is required (cf. *IDW AuS 270 (Revised)*, para. 23).

Further notes

Due to the changes in the general economic conditions caused by the pandemic, the determination of estimated values (particularly for financial years ending after 31 December 2019) and the presentation of the future development of the company in the management report will in many cases be subject to an unusually high degree of uncertainty. If this circumstance is appropriately presented in the financial statements or management report of the company, there is a basic possibility that attention may be drawn to this in the audit opinion within the scope of a "note highlighting a fact" (separate section with a suitable heading; cf. *IDW AuS 406*, para. 10 et seq., A8 for details). It should be noted, however, that such a note will often be of a more general nature, especially since it may neither replace a modification of the audit opinion (e.g. as a result of objections to the verifiability of assumptions made), nor a possibly required note on the risk of a pandemic nor a possibly required report on the assessment of the effects of the pandemic as a particularly important audit issue (key audit matter). Therefore, such a reference does not appear to be the appropriate means to adequately take into account the current uncertainties.

Delivery of reporting

The audit of the financial statements must be completed at the latest at the time of the resolution on the determination or approval of the financial statements (section 256 (1) no. 2 AktG (analogously for GmbH)). The completion of the audit requires the signing of the audit report (§ 321 (5) sentence 1 HGB) and its presentation to the declaratory body (e.g. supervisory board or shareholders' meeting). In the current pandemic situation, the use of a qualified electronic signature in accordance with the Digital Signature Act facilitates the fulfilment of the submission requirements. However, the auditor's obligation to submit a report can also be fulfilled by submitting at least one personally signed copy of the report to the chairman (in his absence: his deputy or a simple member of the board) of the declaring body. In this case, the other board members can receive report copies from the chairman in electronic form (e.g. as a file in PDF format), so that the usual handwritten signature of further copies can be dispensed with.

If the qualified electronic signature according to the signature law is not possible and also the delivery of the one personally signed report copy cannot be submitted in a timely manner due to current restrictions, it may be possible in exceptional cases to submit a copy of the report in electronic form only (e.g. as a file in PDF format). In this case, there are legal uncertainties as to whether this is sufficient to ensure access and thus an effective determination of the financial statements can be made. In this situation, the auditor could, in the context of the supervisory board meeting or shareholders' meeting (e.g. in the form of a video conference), in which the determination is to be made, declare that the report copy corresponds to the signed original.

Obligations after the issue of the audit certificate

After the date on which the audit certificate is issued, the auditor is generally not obliged to carry out any further auditing activities on the audited annual financial statements and, if applicable, the management report (cf. *IDW AuS 203*, para.18 et seq.). The further developments of the pandemic event after the date of the issuance of the audit opinion do not result in the financial statements and/or management report at the time of the issuance of the audit opinion being judged to be incorrect, even if these are facts that brighten up the situation. Therefore, this is not a reason to revoke the auditor's opinion. It seems appropriate that if the auditor becomes aware of circumstances that are of material importance to the audited company before the financial statements are prepared or approved, he should discuss the necessity of amending the financial statements with the company bodies responsible for preparing and preparing or approving the financial statements. If the corporate bodies decide to amend the financial statements and/or the management report, the financial statements and/or management report must be reviewed by means of a supplementary audit in accordance with § 316 (3) sentence 1 HGB, insofar as the amendments require it.

Düsseldorf, 04./25. March 2020

