

I understand that some councils/ council associated entities are planning to disclose impact of COVID 19 pandemic ('Cv19') in their financial report. Below are some high-level audit expectations if you are including a disclosure on Cv19 impact and a draft note with some suggested wordings for your reference.

- Scenario 1 – Entities must disclose Cv19 impact in 2019-20 financial report if there is a material financial impact to council due to Cv19. This includes material uncertainties that may cast significant doubt on the ability of the entity to continue as a going concern.

Guidance:

Refer [AASB guidance material](#) on impact of Cv19 on financial reporting, noting that the impact of Cv19 on each council is expected to be varied and disclosures need to be tailored/ made specific to your council.

If this scenario is applicable to your entity, do reach out to your auditors early to agree on accounting and disclosure impacts of Cv19 on 2019-20 financial report.

- Scenario 2 – Entities have an option to disclose Cv19 impact in 2019-20 financial report if users reasonably expect Cv19 to impact the entity, regardless of whether there is a quantitative impact and/or you want to include additional information on Cv19 impact.

Guidance:

Refer below for **draft note** that needs to be tailored/ made specific to your council circumstance.

Note xx Impact of COVID 19 pandemic on council XX operations and 2019-20 financial report:

On **30 January 2020**, COVID 19 was declared as a global pandemic by world health organisation. Since then, various measures are taken by all three levels of Government in Australia to reduce the spread of COVID-19. This crisis and measures taken to mitigate it has impacted **council XX** operations in the following areas for the financial year ended 30 June 2020:

- In response to significant **decrease in demand / government directive** amidst the COVID-19 outbreak, the **leisure centre facilities / libraries/ community centres** were closed. These closures resulted in a decrease in the council user fee revenue by **\$ x million/thousand** and also decreased associated expenses by **\$ x million/thousand**.
- **Council XX** paused all commercial rent agreements from **xx XXXX 2020**. This resulted in decrease in rent revenue of **\$ x million/thousand**.
- Council activated its hardship policy in response to this crisis on **xx XXXX 2020**. This resulted in an increase in expenses of **\$ x million/thousand**.
- Financial impact till date from deferral of rates revenue/ interest free period is **\$ x million/thousand**. This has also resulted in the debtor balance as at 30 June 2020 to increase by **\$ x million/thousand** compared to last year.
- **Add any other description specific to how council's financial position and performance has or is likely to be affected...**
- **...**

Guidance on disclosure relating to "Accounting Estimates"

The relevant and guiding requirements about disclosures of accounting estimates, management judgements and assumption are set out in the following paragraphs of AASB 101 Presentation of Financial Statements.

- *“An entity shall disclose, along with its significant accounting policies or other notes, the **judgements**, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.” (AASB 101.122)*
- *“An entity shall disclose information about the **assumptions** it makes about the future, and other **major sources of estimation uncertainty** at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of (a) their nature, and (b) their carrying amount as at the end of the reporting period.” (AASB 101.125)*

As the 2019/20 financial report is prepared in a COVID-19 context, councils should make additional disclosures to describe the influence of COVID-19 on management's judgement's and assumptions.

Within the Accounting Estimates, suggested disclosures:

- a general description of the COVID-19 global health pandemic event and the consequential effects of COVID-19 and government's responses
- identify the account balances that are affected by COVID-19 due to management's judgements and assumptions about the future and a source of estimate uncertainty, including:
 - Receivables and expected credit loss provision;
 - Fair value of non-financial assets;
 - Impairment of non-financial assets;
 - Superannuation - Defined benefit assets and liabilities;
 - Going concern;
 - Subsequent events.

Each Council to tailor their disclosures to suit their actual facts and circumstances, overlaying materiality considerations.

Disclosures in Individual notes

We expect the following account balances and disclosures to have commentary about how COVID-19 has affected the specific management judgement and/or assumption:

- Receivables and expected credit loss provision ('ECL')
 - The ECL rates applied to receivables may be affected by customer hardship programs, repayment plans and extensions, market conditions.
 - Management should refer to these COVID factors as part of their ECL determination disclosures.
- Fair value of non-financial assets
 - For Land assets, the market based fair value is exposed to the COVID-19 effects on the property market. Management should refer to COVID-19 as part of their assessment of material movement of fair values. *Note -Using the latest VG indices is appropriate even though they are pre-COVID19 impact, unless the entity has specific alternative information available to it.*
- Impairment of non-financial assets

OFFICIAL

- COVID-19 environment may influence impairment assessments.
- Superannuation "defined benefit assets and liabilities"
 - these balances are exposed to various assumptions, including discount rates, unemployment rates, future salary increase, equity markets.
- Going concern
 - management should review budgets, cashflows, forecasts to reflect management's expectations about the future and to assess whether the going concern assumption remains appropriate.
 - Include a concluding statement that the going concern assumption remains the appropriate basis to prepare the financial report.
- Subsequent events
 - Since 30 June 2020, there has been COVID-19 related developments that warrant disclosure, e.g. significant community transmission, second wave, stage 4 restrictions for metro Melbourne (stage 3 restrictions for rest of Victoria) etc., as non adjusting event.
 - Disclose expected impact to service delivery (e.g. temporary closure of facilities), impact on revenue streams, additional expenses, any impact on planned capital works program, highlight uncertainty on various balances and estimates due to COVID 19 etc.,
 - Disclose any mitigating strategies put in place, highlight inability to estimate the overall impact due to uncertainty and ongoing nature of CV19.
 - Events will need to be monitored up to the point of signing.
 - With Victoria going through the second wave of COVID 19, **subsequent events / post balance sheet event disclosure** in this year's financial report will be a key disclosure for most entities. Refer to a simple write-up on this matter released by QAO - <https://www.qao.qld.gov.au/blog/assessing-covid-19-events-after-reporting-date-why-auditors-are-required-review> for guidance.
- Any other note in which a material movement/variance is due to COVID-19 response.

If COVID-19 has not resulted in a change to the judgement and/or assumption, then this should be disclosed.

Additional comments:

- Impact assessment of Cv19 to include material uncertainties that may cast significant doubt on the ability to continue as a going concern. This may be relevant for council associated entities (leisure centres / markets etc,) that prepare separate financial reports.
- If you decide to include the impact of Cv19 as a disclosure in your 2019-20 financial report, auditors will be looking for evidence to audit the disclosure note.
- Note - Early identification and discussion with your auditor on Cv19 related impacts to your financial report / performance statement will help to reduce pressure during the year-end phase.