



Annual Public Sector Accountants Conference

Impacts of COVID -19 on Financial Reporting & Auditing

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Session Objectives

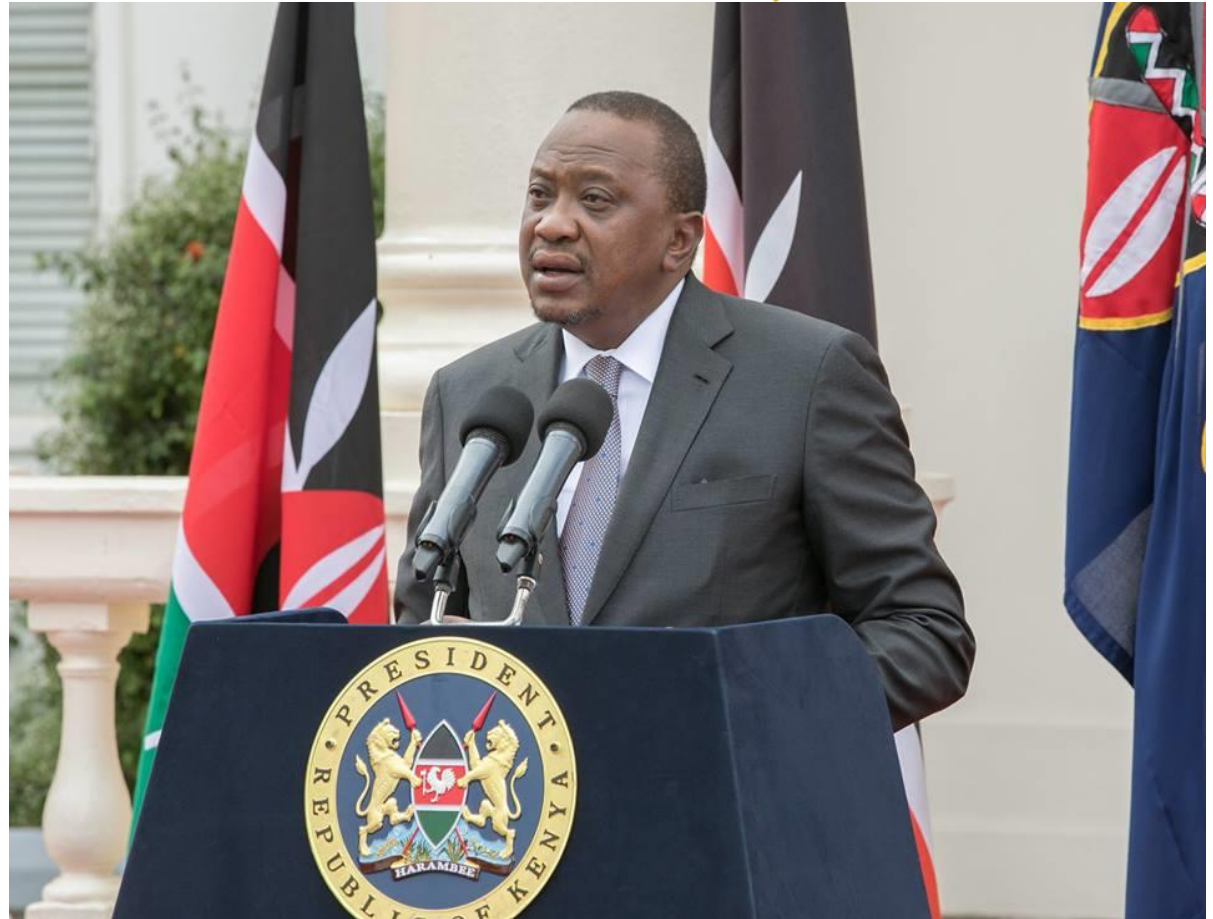


- Reflections on the Pandemic
- Emerging Issues in Public Sector Reporting
- Emerging Issues in Public Sector Audits
- What to expect into the future

Freedom at Last!



Opening the economy has practical relevance to our discussion this morning!



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Reflections on the Impacts of COVID -19 On



- ❑ COVID-19 has put the world in the most uncertain times in the recent history – **probably no other thing has ever stopped the world at ago like it in our generation and the generation of our fathers**
- ❑ While a lot of information, evidence and response mechanism is now available, the enemy is still out at large –WHO projects we still in it through 2022
- ❑ However, economies have to move on for life does not stop with the virus!

Macro Impacts of the Pandemic



- ❑ Besides disrupting our social life, the pandemic has had far reaching impacts on the economy
- ❑ Serious slow down on the GDP growth rates – **ours contracted by about -0.3%, but the economy was rebased to Ksh.10.753 trillion**
- ❑ Interruptions on economic activity and consequent impacts on government revenues – **missed revenue targets to collect ordinary revenues of about Ksh. 1.892 trillion**
- ❑ Acceleration of public debt – **exceeded projected targets to borrow over Ksh.1.023 trillion in fiscal year ended 2020**

Impacts cont...



- Roll out of COVID-19 response interventions – Kazi mtaani (Ksh. 10 billion); Tax breaks; enhancement of transfers to aged persons & PWLDs; SME bailouts (subsidized credit facilities) among other economic recovery initiatives
- Impacts on employment (about 750,000 jobs projected to have been lost in the formal sector)
- Many small businesses wiped out completely – will never recover
- Re-organization of the economy into digital based platforms

Implications for CPAs



- ❑ Some could have actually been victims of the hemorrhage in the economy – lost jobs
- ❑ Lost business for practicing CPAs – businesses likely to cut down on key services and those wiped out!
- ❑ Disruptions of movement limits field activities for those in the public sector – **opportunity cost!**

Emerging Issues in Reporting



- ❑ While it is practically not possible to understand the full impact of the pandemic on financial reporting at this juncture, we could point out key aspects that are likely to be affected
 1. **Contracts** –faced with significant cash flow disruptions, many ongoing contracts will be affected. This may necessitate cost overruns & emergence of contingent liabilities
 2. **Debt rescheduling** – part of the COVID-19 responses were to reschedule debt service & maturing obligations. This complicate the reporting & valuations
 3. **Internal Controls** – the efficacy of internal controls is critical in assessment of ‘true and fair view’ –the new normal limits certain new measures and demands new ones



5. **Risk assessment** – the pandemic has brought about new risks (use of digital applications) and in other cases complicated existing risk. This may necessitate revaluations and other contingencies
6. **Contingency obligations** – these are integral elements in financial reporting and with this uncertainty their valuations could become harder to determine
7. **Going Concern** – while this may not be highly pronounced in the public sector, public entities in business can suffer from it

Emerging Issues in reporting



8. **Revenue recognition & debtor provisions** – this may be much more uncertain with all the uncertainty around us (mainly for IPSAS Accrual)
9. **Emergency spending programmes** – may be difficult to account
10. **Administration issues** – people are still working from home! Do we present financial reports on online meetings? How effective is this?

Emerging Issues -Audits



- This will impact both internal and external audits
 1. **Evidence** – with restrictions, social distancing & handling of documents
 2. **Sampling** – especially if geographical distributions exists
 3. **Allocation of workload** – if budgets necessitates reductions in manpower, how does this interfere the audit exercise?
 4. **Budget cuts** – probably the biggest elephant in the room!
 5. **Timelines** – if reports delayed, less time to do audit!

Emerging Issues -Audits



- 6. Auditing COVID -19 interventions – emergency spending programmes with high risks**
- 7. Procurement methods – direct necessitated by the emergency!**

Concluding Thoughts!



- ❑ Just as financial reporting is historical in nature, we will only know the true impacts of COVID-19 on reporting after the pandemic is over –fertile grounds for future research!
- ❑ In the meantime, we shall have to do with what works by exercising our professional judgment!

Finally.....



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