

5 May 2020

IDW Initiatives:

Provision of Information and Further Support to the German Auditing Profession during the Coronavirus Crisis

Contents

Practical Support Initiatives

- Deferral of the Application of ISA-DE in Germany
- Digital Version of Documents, including Auditor Reporting
- General Guidance from the IDW on Financial Reporting and Auditing Issues
- Industry Specific Guidance from Various Subject-Specific IDW Technical Committees
- One-Stop-Shop for Relevant External Sources

Political Support Initiatives

- IDW's Engagement with Government and Oversight Authorities
- Further Significant Political Initiatives
- IDW Trendwatch

5 May 2020

Practical Support Initiatives

Deferral of the Application of ISA-DE in Germany

In view of the coronavirus pandemic, during its web meeting on 16 March 2020, the IDW Auditing and Assurance Board agreed to defer the move from German Auditing Standards to ISA-DE for one year. ISA-DE will now be applicable for the audit of financial statements for periods beginning on or after 15 Dec. 2021. ISA-DE can be applied earlier on a voluntary basis.

Digital Version of Documents, including Auditor Reporting

In view of the increasing use of electronic media and office digitalization, the IDW refers to its Q&A on digital auditor reporting “Digitaler Prüfungsbericht und Bestätigungsvermerk” (digital long-form audit report and auditor’s report) which deals with the issue of digital signatures, electronic financial statements, further reports and the combination of paper-based and electronic documents.

General Guidance from the IDW on Financial Reporting and Auditing Issues

The IDW has recently published the following material on its German language website, which it intends to update should ongoing developments warrant this:

Technical guidance on the effects of the spread of the coronavirus on the financial statements as of 31.12.2019 and their audit (Parts 1 and 2) – link to convenience translation in English:

<https://www.idw.de/idw/im-fokus/coronavirus/effects-of-the-spread-of-the-corona-virus-on-the-financial-statements-as-of-31-12-2019-and-their-audit/122914>

Questions concerning the impact of the spread of coronavirus on the financial statements and their audit (Part 3) - link to convenience translation in English:

<https://www.idw.de/idw/im-fokus/coronavirus/questions-concerning-the-impact-of-the-spread-of-coronavirus-on-the-financial-statements-and-their-audit--part-3-/123132>

In summary, parts 1 and 2 of the technical guidance provide accounting guidance both for preparers and auditors on selected issues including:

- post -balance sheet events,
- situations where access to financial reporting information of subsidiaries may be limited

5 May 2020

- increased use of professional judgment
- applicability of the concept of consistency of accounting principles
- impact of government announced support measures
- preparation and publication deadlines

- topical accounting admissibility issues and questions:
 - inclusion of restructuring mechanisms
 - derecognition of liabilities
 - hedging
 - depreciation and impairment
 - valuation of inventories
 - bad debt increases
 - impending loss from covenants
 - deferred tax
- consolidation issues
- impact of the audit process:
 - specific aspects of identifying and assessing risks of material misstatement
 - effects of the risk assessment on further audit procedures including the evaluation of management's assessment of the going concern assumption
 - dealing with limitations in obtaining audit evidence
 - communication with those charged with governance
 - audit reporting

Part 3 is a Q&A paper addressing:

- supplementary disclosure concerning the impact of the coronavirus pandemic
- accounting for short-time working compensation
- accounting for social security payment reimbursements
- AGM postponement – impact on auditor engagement
- auditor travel and access restrictions – remote working
- assessment of going concern related issues and future prognoses
- impact of various selected relief measures announced for Germany

Part 3 contains an appendix listing various audit procedures that may be performed remotely.

5 May 2020

Industry Specific Guidance from Various Subject-Specific IDW Technical Committees

Questions and answers: Impact of the coronavirus-pandemic on credit institutions – link to German text:

<https://www.idw.de/idw/im-fokus/coronavirus/fragen---antworten--auswirkungen-der-coronavirus-pandemie-auf-kreditinstitute--fachlicher-hinweis-des-bfa-/123190>

Technical guidance on the effects of the coronavirus pandemic on impairment of financial instruments according to IFRS 9 in the quarterly financial statements of banks as of 31 March 2020 – link to convenience translation in English:

<https://www.idw.de/blob/122930/efd22b7f06099c9c6388f1a065f95694/down-corona-bfa-engl-fachhinw-data.pdf>

Technical guidance on business valuations – link to German text:

<https://www.idw.de/blob/122884/2316fb82457e82143445b8d0740a3e89/down-corona-faub-fachlicher-hinweis-data.pdf>

Technical guidance on short-time working – link to German text:

<https://www.idw.de/blob/123018/21402524ddd6de1f83ec4adb296fa1f0/down-corona-fachlnweis-kurzarbeit-far-data.pdf>

Technical guidance on taxation measures in regard to the coronavirus – link to German text:

<https://www.idw.de/blob/123030/8a0bdb40e0ef0f7ddb97b73dfc55/down-corona-stfa-steuerlmassnahmen-fachhinweis-data.pdf>

Technical guidance on the impact on the hospital sector and the statutory health insurance providers - link to German text:

<https://www.idw.de/idw/im-fokus/coronavirus/auswirkungen-der-ausbreitung-des-coronavirus-auf-den-krankenhaussektor-und-die-gesetzlichen-krankenkassen--fachlicher-hinweis-/123048>

Technical guidance on the impact of the coronavirus-pandemic on accounting for investment assets - link to German text:

5 May 2020

<https://www.idw.de/idw/im-fokus/coronavirus/auswirkungen-der-coronavirus-pandemie-auf-die-rechnungslegung-von-investmentvermoegeen/123194>

One-Stop-Shop for Relevant External Sources

The IDW's website also includes references to links to important third-party websites that contain important material relevant to the coronavirus-pandemic. This includes

- government ministries,
- administrators for support programs and liquidity assistance,
- employment law specifics, and
- other specific topics.

The IDW also includes links to the various websites of many of

- its member firms,
- regional professional organizations (Accountancy Europe)
- international professional organizations (including UK FRC and IFAC).

Political Support Initiatives

IDW's Engagement with Government and Oversight Authorities

Financial Services Industry: The IDW paper on IFRS 9 (also translated into English) was:

- developed in cooperation with the German Federal Ministry of Finance (BMF) and the Federal Financial Supervisory Authority (BaFin)
- discussed in a meeting between Accountancy Europe's Banks Working Party and the European Banking Federation

The IDW joined a „banking summit“ that was held via telephone conference. Circa. 100 representatives of banking organizations discussed the impact of the coronavirus pandemic on banks' risk provisions.

The IDW held discussions with oversight authorities regarding the obligation to report to them on systemic going concern issues, factors that would impede an entity's development and going concern risks.

In regard to coronavirus-related support loans, we held discussion with the KfW (bank that lends government support funds to business) and other prominent banking organizations concerning the design of possible trust arrangements relating to the loan-support programs

5 May 2020

Insurance Industry: The IDW was involved in discussions with the GDV Gesamtverband der Deutschen Versicherungswirtschaft (representative body for the German insurance industry) concerning the risk provisions pursuant to IFRS 9.

Investment fund Industry: In developing the technical guidance paper on investment funds, the IDW was involved in discussions with the representatives of the German investment fund industry.

Further Significant Political Initiatives

The IDW recently initiated contact with Germany's Federal Minister for Economic Affairs and Energy, underlining the profession's readiness to deliver on its contribution towards the stabilization of the economy during the coronavirus pandemic. Acknowledging the systemic importance of the health sector currently, the IDW pointed out the role of the profession should be considered to be of equal significance for the financial and economic sector; not least in terms of its support function in regard to the measures in place to ensure ongoing liquidity for the businesses most heavily impacted. In its correspondence with Mr. Altmaier, the IDW specifically requested he classify the profession of German public auditor as a systemically relevant profession. Appropriate client access to our profession will be key in ensuring smaller and medium sized entities, in particular, receive the advice and support they urgently need to safeguard the continuity of their businesses.

The IDW is also maintaining regular contact with representatives from various Ministries. In a letter to the Federal State Government of North-Rhein Westphalia of 23 March 2020, the IDW proposed various detailed measures to ensure efficient and timely financial support to avoid pandemic-induced insolvencies that could trigger a crisis within the banking system. This letter has been published on the IDW's website (24 March 2020). Similar suggestions were sent to the Minister Presidents of all the Federal States in Germany.

The IDW wrote to the Federal Ministry of Justice and Consumer Protection supporting the recently announced measures temporarily easing certain insolvency requirements and promising financial support. The IDW explained the need for criteria to assess the level of solvency at a specific point in time needed in regard to determining an entity's eligibility for support and is continuing its engagement with the Ministry to develop appropriate solutions. One suggestion the IDW made was to work on the assumption that any entity that was demonstrably solvent at 31 Dec. 2019 will have suffered coronavirus-pandemic related insolvency issues to be countered by government support measures. This letter has been published on the IDW's website (19 March 2020)

5 May 2020

The IDW also wrote to the Federal Ministry of Finance in support of the taxation measures announced on 19.03.2020, but also making certain further detailed suggestions. This letter has been published on the IDW's website (25 March 2020).

IDW Trendwatch

The IDW's Trendwatch Committee monitors socio-economic trends and is essentially a think-tank for the profession on current affairs.

This committee has issued a series of Trendwatch position papers in the past, positioning the profession as a substantial voice in the political arena. These papers are intended to be thought-provoking papers dealing with topical social, economic, and political issues, also demonstrating that the profession is a reliable and serious player in taking its responsibilities seriously in actively participating in the debate.

Of course, the IDW's Trendwatch Committee is monitoring the recent developments associated with the coronavirus pandemic and is currently working on a paper to explore selected aspects of the social, economic, and political impacts of the pandemic. This paper will explore the impact on today's globalized world and on our daily lives, taking a first look at possible post-corona scenarios from a socio-economic perspective and further political developments.

This committee will continue to monitor the socio-economic impacts of the coronavirus pandemic as they unfold and will be issuing a series of further papers throughout 2020.