

Unofficial translation

## **Impact coronavirus on professional services provided by professional accountants**

Fully rewritten Version as of April 6, 2020

(This means that previous versions of March 3,12,18 and 20 will expire)

Koninklijke Nederlandse  
Beroepsorganisatie  
van Accountants



### Status NBA Alert

This publication, which was established under the responsibility of the NBA, is intended to provide accountants ('registeraccountants' and 'accountants-administratieconsulenten') with instructions regarding a specific part of exercising the accounting profession. Accountants are expected to take note of these instructions and considerations insofar as relevant to the engagement. An accountant who does not apply these instructions should be prepared to explain how the obligations, basic principles, and essential legal and regulatory procedures, which are dealt with in further detail in these instructions, nevertheless have been complied with. This publication does not have the status of a professional regulation.

This is a translation of a non-regulatory NBA publication. This Alert is a translation of the official Dutch version (version of April 6, 2020). The Dutch version is leading when discussions take place how to interpret the Alert.

### Reading guide

The NBA believes that the information in this NBA Alert is worth reading for all accountants. This does not change the fact that certain sections in the Alert have a higher relevance for certain target groups. That is why the Alert indicates in colour which information has special relevance for certain target groups.

We distinguish the following target groups:

|  |   |
|--|---|
|  | Accountants who audit financial statements (auditors)                   |
|  | Accountants who compile and review financial statements (practitioners) |
|  | Professional accountants in a financial function                        |
|  | Other professional accountants  |

## Impact coronavirus on professional services provided by professional accountants

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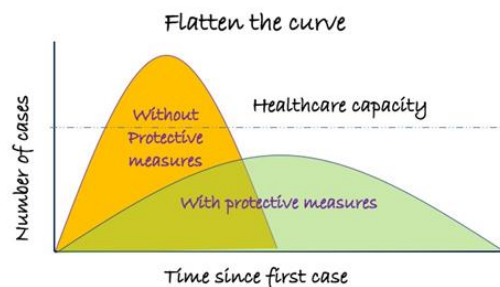
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## 1 Dutch policy coronavirus (Covid-19) focuses on control

After the coronavirus initially mainly appeared as a Chinese problem, the last weeks showed that the disease is widely spread in the Netherlands and Europe. The measures taken in the Netherlands in recent weeks are unprecedented. If someone had said six months ago that the world would now be in this situation, most people probably would not have thought this would be possible.

The reality of developments surrounding the coronavirus is that nobody knows exactly what will happen. Prime Minister Mark Rutte said two weeks ago that we have to make 100% of the decisions with 50% of the knowledge. We also see that in the precautions that are being taken. On Thursday, March 12, it was decided to keep the schools open and the hotels and restaurants could remain open, three days later the hotels and restaurants closed after consultation at six o'clock that evening and it was decided to stop regular classes at schools. This was due to the public reaction to previous precautions and the rapidly changing situation.

Policy in the Netherlands is mainly aimed at spreading the cases of illnesses over a longer period. The aim is to ensure that healthcare in the Netherlands remains able to help patients who need healthcare.



Whether the precautions currently taken are effective and for how long they are needed cannot be determined with any certainty at this time. It is therefore sensible to follow government announcements and to cooperate loyally with the precautions taken to ensure that the desired distribution is as effective as possible.

Economically, what is happening now is something we have never experienced before. Closing theaters, restaurants and sports clubs has never happened before. The consequences for the travel industry are already unprecedented. All this has consequences for large listed entities, but also for SMEs and self-employed individuals.

The Dutch government has announced that its policy is aimed at minimizing the economic consequences of the crisis. The Dutch economy is in relatively good shape and the national debt can rise by some 90 billion within existing European rules. Minister Hoekstra (Minister of Finance) has indicated in *Buitenhof* (a Dutch TV-show) that he is willing - if necessary - to spend this amount and that he will not shy away from higher expenditures, thereby further increasing government debt: 'We will ensure that entities will survive this crisis and that people will keep their jobs.'

Others, like Professor Arnoud Boot and VNO-NCW employers' association chairman Hans de Boer, also think that in the Netherlands we are capable of surviving this crisis. This does not change the fact that there is a realistic expectation that entities will also go bankrupt as a result of the coronavirus. It is also possible that self-employed individuals will have to go through a rough time and that individuals are laid off. The Dutch government has already announced far-reaching measures to support entrepreneurs, their staff and self-employed individuals to prevent this as much as possible.

Of course, a virus outbreak was an existing risk that entrepreneurs might have seen. However, it was not obvious to consciously include this risk in an entity's risk analysis because the chance that it would occur was so small. It is like getting on a plane, of course: you can have an accident with catastrophic consequences, but in practice for most people it does not affect their actions.

| Audit   | Compilation and Review | Financial functions | Others |
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| <p>The NBA's policy is therefore -where ever possible- aimed at :</p> <ul style="list-style-type: none"> <li>• maintaining calm and contribute to controlling the spread of the disease and the financial crisis;</li> <li>• assisting accountants and indirectly their clients and give them the opportunity to manage the financial crisis;</li> <li>• not burdening accountants and indirectly their clients more than strictly necessary;</li> <li>• finding solutions that contribute to the Dutch economy, that are clear about the risks, enhance credibility of information, and at the same time do justice to the exceptional circumstances in which clients, the Netherlands and the world currently find themselves.</li> </ul>   |                        |                     |        |
| <p><b>2 Going concern issues in the financial statements and in the engagement report</b></p> <p>A large number of entities will face going concern issues due to the current situation, without the help of the government. At the same time, the government's message is that it will do its utmost to support entities and help them get through this crisis. This applies to large entities, but also to smaller entities. The government has also announced a number of measures. You can read more about this in the <a href="#">letter</a> that Minister Wiebes (Minister of Economic Affairs and Climate) sent to the House of Representatives on 12 March, also on behalf of his colleagues Minister Koolmees (Minister of Social Affairs and Employment) and Minister Hoekstra (Minister of Finance), about the economic measures relating to the corona virus<sup>1</sup>.</p> <p>Entities that prepare their financial statements and their accountants to assist them or to audit or review the prepared financial statements should now consider what should be stated in the financial statements and the director's report about the corona virus.</p> <p>This is discussed in three steps:</p> <ol style="list-style-type: none"> <li>1 Subsequent events</li> <li>2 What should be stated in the financial statements and the director's report ?</li> <li>3 What should be included in the engagement report?</li> </ol> <p>Moreover, these matters are often also relevant when preparing and auditing other financial statements, for example for a bank or for interim financial information.</p> |                        |                     |        |
| <p><b>2.1 Subsequent events</b></p> <p>Many entities have closed the financial year at December 31, 2019 and are preparing their financial statements. The first patients with the virus fell ill in China in December 2019.</p> <p>The problem only became known in January 2020 and the impact gradually became clear in the following months. It is obvious to treat the effects of coronavirus for such entities as subsequent events that do not provide further information on the actual situation as at the balance sheet date, but about the circumstances that arose after the date of the financial statements.</p> <p>It can be stated that the effects of corona in the Netherlands only became really relevant at the end of February 2020. For financial years or other reports with a reporting date before this date, the impact of the corona crisis can be seen as subsequent events that say nothing about the situation as at the balance sheet date (reporting date). An exception to this may apply to entities that are highly dependent for their results on areas that previously suffered a lot from the corona crisis (for example China).</p>  |                        |                     |        |

<sup>1</sup> <https://www.rijksoverheid.nl/documenten/kameronderdelen/2020/03/12/kamerbrief-over-economische-maatregelen-met-betrekking-tot-het-coronavirus>.

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| Audit | Compilation and Review | Financial functions | Others |
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The coronavirus will also affect financial statements or other financial reports covering periods closing after the end of February 2020. Consider, for example, an entity that closes the financial year at March 31 and should include the events that have already taken place. There may also still be subsequent events. However, such events will say something about the situation as at the balance sheet date. And that impact can be significant, such as possible impairments of assets, valuation of outstanding receivables, possible breaches of contract and penalties, the extent to which covenants can still be met, including the required disclosures in the reporting.

We plan to elaborate on this in a future update of this alert. In the meantime, we already point to the publication of [ESMA: Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9<sup>2</sup>](#) which, as the title says, deals with the application of IFRS 9 in this situation. The considerations herein may also be relevant for reports prepared on the basis of the RJ Guidelines for annual reporting (Dutch GAAP) or other financial reporting frameworks.

Logically, there will be situations later this year or thereafter where the impact of the coronavirus is already clear as of the reporting date.

## **2.2 What should be stated in the financial statements and the director's report?**

### *2.2.1 Attention to going concern and subsequent events in the financial statements*

It is expected that a large number of entities will have a material uncertainty related to going concern. In a normal situation where there is reason for an entity to have doubts about going concern, the financial statements will explain which matters lead to doubts about going concern and how the entity intends to solve these problems.

The current situation around corona is extraordinary. The Netherlands has currently taken drastic precautions to control the disease as described in the introduction. It is also not imaginary for precautions to be extended or new precautions to be taken in the coming period. These precautions also have a major impact and financial consequences for many entities. At the same time, the government has announced that it is doing its utmost to help entrepreneurs, employees and self-employed individuals to get through this crisis wherever possible. In this context, important measures have now been taken to limit the consequences for entities, employees and self-employed individuals. Given this uncertainty about the future, the management of the entity has to estimate the impact of the corona virus.

In the event of a material uncertainty related to going concern, the Dutch GAAP (RJ Guidelines for Annual Reporting) expect entities to include an adequate explanation of this in the notes to the financial statements. The question is whether entities are now able to provide a thorough analysis of the situation. To describe the situation with a different metaphor: at the moment there is, so to speak, a blazing fire that the fire brigade is trying to get under control. It is not realistic to expect that someone is already able to determine the fire damage. Obviously, if there is no clarity yet, entities describe the uncertainty they are entered in as well as possible and give an outline of the expected impact for the entity, but also indicate that they do not reasonably know what this will ultimately mean for them. Where possible, they will of course have to describe the already known consequences and measures taken. This includes, for example, a drop in turnover that has already been realized, the consequences of a temporary or partial entity closure, whether or not government support has already been promised, but also entitlements to be made to government support.

Therewith, entities seem to be doing what can be expected of them in this situation in the context of going concern.

<sup>2</sup> [https://www.esma.europa.eu/sites/default/files/library/esma32-63-951\\_statement\\_on\\_ifrs\\_9\\_implications\\_of\\_covid-19\\_related\\_support\\_measures.pdf](https://www.esma.europa.eu/sites/default/files/library/esma32-63-951_statement_on_ifrs_9_implications_of_covid-19_related_support_measures.pdf).

| Audit  | Compilation and Review | Financial functions | Others |
|--|------------------------|---------------------|--------|
| <p>It may also be necessary to adjust the notes to the financial statements. This is the case if insufficient explanation can influence the decisions of users of the financial statements. In that case, for example, the nature of the event and, as far as possible, an estimate of the financial impact should be given<sup>3</sup>.</p>   |                        |                     |        |
| <p><b>2.2.2 Information in the director's report</b></p> <p>In addition to the information in the financial statements, it may be the case that the director's report should state matters if they influence expectations about the entity. The director's report will mainly highlight this information in the sections regarding future developments and risks.</p>  |                        |                     |        |
| <p style="text-align: center;"><b>3 What should be included in the engagement report?</b></p> <p><b>3.1 Auditor's Report</b></p> <p>In case of a material uncertainty related to going concern, the auditor will have to consider the requirements of ISA 570<sup>4</sup>. The reality is that in many cases entrepreneurs have no detailed plans for how to survive the crisis, because they cannot reasonably estimate what the effect will be or how long the crisis will last. In those situations, it is understandable that entities cannot prepare a detailed cash flow forecast. At the same time, the government's promise to do 'whatever-it-takes' to help entities survive the crisis as much as possible gives a reasonable expectation that, basically healthy entities will be helped. This could be, for example, through deferral, part-time dismissal, state-guaranteed credits or otherwise. This does not change the fact that in many cases there will be a material uncertainty related to going concern.</p> <p>In normal situations, an adequate disclosure of a material uncertainty related to going concern of the actual situation as a result of the coronavirus, including a clear disclosure of the uncertainties, could in principle lead to an unqualified opinion. However, a going concern section should then be included in the auditor's report. Use can be made of the text below, or another appropriate text that meets the requirements in ISA 570. HRA Book 3<sup>5</sup>. also provides illustrations for the going concern section.</p> <p>If for other reasons there was already an uncertainty related to going concern, then the auditor should assess the impact thereof. In those situations, it is obvious that entities have cash flow forecasts, at least in the situation before Corona occurred. In that case, the auditor will have to determine whether the explanatory notes are sufficiently clear and whether the valuation on a going concern basis is acceptable, given the situation. If this is not the case, the valuation on a going concern basis may also be at stake.</p> <p>The saying goes: 'Time heals all wounds'. As time progresses, the impact of the corona virus on going concern of the entity is expected to become more apparent. Where possible, it may therefore also be an option to postpone the preparation of the financial statements and the issuance of the auditor's report until later. Where this is not possible, inherent uncertainty with management does not lead to the conclusion that the disclosure is inadequate and it is therefore not a reason not to issue the auditor's report.</p> <p><i>Example of wording in the going concern section:</i><br/> <i>The coronavirus also affects XYZ. On page AA of the notes to the financial statements management explained what the impact of the virus has already been on XYZ, and what other kind of impact they are taking into account.</i></p> |                        |                     |        |

<sup>3</sup> See RJ Guideline 160.404 from the RJ, the Dutch Accounting Standards Board (Dutch GAAP).

<sup>4</sup> The Standards in the *Nadere voorschriften controle- en overige standaarden* (NV COS) are based on the ISAs and other Standards from the IAASB. Therefore we refer to the ISAs and other Standards from the IAASB.

<sup>5</sup> *Handleiding Regelgeving Accountancy Book 3* with illustrations of engagement reports.

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| Audit | Compilation and Review | Financial functions | Others |
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*It also explains which measures management has already taken and which measures it intends to take, as well as the facilities made available by the government that it expects to use. The explanatory notes also show that large uncertainties remain. Management indicates that there is a material uncertainty related to going concern of the entity . We have assessed the explanation of the situation and the associated uncertainties and believe that this is an adequate disclosure given the situation. Because there is uncertainty about what the final economic impact of the coronavirus will be, there also is a lot of uncertainty in these notes. Based on the procedures performed by us and the audit evidence obtained, we believe that, taking into account the uncertainties that exist at the time of issuing this auditor's report, the entity properly explains the situation in its financial statements and correctly reports its financial statements on going concern basis in line with the financial reporting framework. Considering this situation, we have provided - in line with the auditing standards - an unqualified opinion on the financial statements in this audit report.*

The text above is a possible interpretation of the requirements in ISA 570. Taking into account the expectations in the public interest, an attempt has been made to provide some understanding into the auditor's considerations in this regard. This description goes beyond what is strictly required by the auditing standards. It is therefore quite possible that auditors use different terms in the going concern section.

The NBA expects that a going concern section will be included in many audit reports in the coming period as a result of the corona events. However, there will be situations where this will not happen because the impact of corona on the entity as far as foreseeable at the moment and the financial position of the entity are not a matter for a material uncertainty related to going concern.

Then, of course, other reporting obligations from the financial reporting framework should be complied with and any voluntary disclosure in the auditor's report may be chosen<sup>6</sup> As indicated earlier, there will also be situations where valuation based on going concern is no longer appropriate.

Whatever the situation, the rules that apply to assessing going concern under NV COS make it necessary for auditors to:

- discuss the impact of corona on entities with management and those charged with governance. Please note that there should be a true and fair representation of the actual situation, without raising expectations about the support to be obtained from the government, while the entity apparently does not comply with the conditions for that support;
- obtain sufficient appropriate audit evidence to assess whether the disclosures given by management about the corona events are appropriate; and
- document the audit evidence and their considerations in such a way that, in line with ISA 230, they (can) provide an experienced auditor an understanding regarding procedures performed with respect to going concern, the results from these procedures, and the resulting audit evidence obtained, and the conclusions which the auditor has drawn and the support thereof, all in line with ISA 570 paragraph 9.

The fact that auditors (may) pay more attention in their going concern section to the disclosure of the management in the financial statements to a material uncertainty relating to going concern, does not mean that there is a shift in the responsibilities of management and the responsibilities of the auditor. The entity remains responsible for evaluating the impact of the corona events and the adequate disclosure in the financial statements. The auditor should assess whether this has been done adequately.

<sup>6</sup> See Standard 706 from the NV COS which is based on ISA 706 from the IAASB.



| Audit  | Compilation and Review | Financial functions | Others |
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| <p><b>3.2 Compilation report</b></p> <p>In this exceptional situation, we can imagine that practitioners with a compilation engagement also feel the need to include a disclosure of the corona crisis in their report.</p> <p>They can also do this. The fact that the standard does not have an requirement for this does not mean that it is not possible to include a disclosure in the compilation report. That may be desirable in this situation in the public interest. Two examples of such a text are given below. The first is similar to the illustration for audit reports included above. The practitioner confirms that there is a material uncertainty, but also that the practitioner understands that the entity opts for valuation based on going concern. In doing so, the practitioner makes explicit what he says implicitly. After all, if he did not agree with the valuation based on going concern, he would not be able to issue a compilation report.</p> <p>The second example is taken from the text of HRA Book 3. This is similar to the illustrations of audit reports in HRA Book 3.</p> <p>Because there are no requirements in the standard, the practitioner is free to determine which text to use best or the practitioner may choose his own text.</p> <p><i>Example 1:</i><br/>The coronavirus also affects XYZ. On page AA of the notes to the financial statements you have explained what the impact of the virus has already been on XYZ, and what impact you still account for. You have also explained which measures you have already taken and which measures you intend to take, including which facilities that the government provides you expect to use. The explanatory notes also show that large uncertainties remain. You indicate that there is a material uncertainty related to going concern of the entity. We agree that the financial statements in this situation can be prepared on the basis of the regulations in the financial reporting framework on the going concern basis. That does not change the fact that uncertainties remain.</p> <p><i>Example 2:</i><br/>We draw attention to point ... in the notes to the financial statements, which explain what impact the coronacrisis has on the financial position of the entity. This condition, together with other circumstances, including the effects of specific government emergency measures on the entity, as set out in point ..., indicate the existence of a material uncertainty that could cast significant doubt about the going concern basis of the entity. Nevertheless, we still believe that the financial statements in your situation can be prepared in accordance with the rules in the financial reporting framework on the going concern basis.</p> <p>Also in this situation, these are illustrations that the practitioner can adapt to the specific situation, but the practitioner can also choose his own appropriate text.</p> |                        |                     |        |
| <p><b>3.3 Review report</b></p> <p>What applies to the compilation report also applies to the review report: in the review report practitioners can pay attention to the explanatory notes in the financial statements. Practitioners may of course do this.</p>   |                        |                     |        |
| <p><b>4 Delay in collecting information</b></p> <p>Employees in the Netherlands have been asked to work from home as much as possible until April 28. This applies to entities as well as their practitioners. This can lead to:</p> <ul style="list-style-type: none"> <li>practitioners and their teams being asked to perform their procedures outside the premises of the entity simply because they are closed;</li> </ul>  |                        |                     |        |

| Audit   | Compilation and Review | Financial functions | Others |  |  |
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| <ul style="list-style-type: none"> <li>• it will sometimes take longer to provide relevant (audit) evidence to the practitioner for the compilation or the audit;</li> <li>• practitioners and their teams cannot have face-to-face contact with certain employees of the client.</li> </ul> <p>In addition, there is the problem of audit teams who are unable to carry out on-site reviews due to a travel ban.</p> <p>In many cases, it will be possible to electronically share the audit file using technology, such as mail or the Internet, to carry out the work that is normally carried out at the entity or abroad, from home. Discussions with officials of the relevant entity or colleagues (abroad) can be held via telephone, Skype or similar technology.</p> <p>However, there will also be situations where this is not possible. Practitioners are expected to exercise professional skepticism. Therefore, it may be necessary to coordinate face- to- face with officials of the entity involved or with colleagues. In those cases, it should be considered how best to do this. This also applies to potential situations where some countries do not allow sharing audit evidence with foreign auditors if this causes the information to go abroad.</p> <p>Regardless of the circumstances, the corona events - however exceptional - do not change the requirements to obtain sufficient and appropriate (audit) evidence to support the audit, compilation or other reports.</p> <p>This can lead to delays in the execution of the procedures. As a result, the audit can only be completed at a later time and, logically, the auditor's report can only be issued later. In some cases, if it is not possible to wait any longer to issue the report, not being able to obtain sufficient appropriate audit evidence will result in an auditor not issuing an unqualified opinion under ISA 705 but depending on the expected impact, issue a qualified report or a disclaimer of opinion.</p> <p>Then it is sensible to discuss the impact of the situation changed by the corona virus with the entity involved.</p> |                        |                     |        |  |  |
| <p style="text-align: center;"><b>5 Considerations for compiling financial statements</b></p> <p>(This text refers to financial statements for which the corona events qualify as subsequent events that do not say anything about the situation as at the balance sheet date.)</p> <p>Many entrepreneurs, and certainly those who ask practitioners for assistance in compiling financial statements, will not know exactly what to include in the financial statements about the effects of the corona events. The practitioner who, as indicated in ISRS 4410, uses knowledge to support management in preparing the financial statements can therefore show added value here. Professional judgment has always been important when carrying out a compilation engagement, but certainly in the case of the current situation with the coronavirus.</p> <p>There are some matters that are important here:</p> <ul style="list-style-type: none"> <li>• In most cases, the practitioner will assist management in making significant judgments when explaining corona events. Please note that the explanatory notes are a true and fair representation of the actual situation, where no expectations are raised about the support to be obtained from the government, when the entity does not comply with the conditions for that support. It is important for the practitioner to properly explain to management, and where relevant those charged with governance, the impact of the choices made so that the individuals mentioned may assume their responsibility for the financial statements;</li> </ul>  |                        |                     |        |  |  |

| Audit  | Compilation and Review | Financial functions | Others |
|--|------------------------|---------------------|--------|
| <ul style="list-style-type: none"> <li>• In most cases, these will be significant matters to be addressed and documented in accordance with the standard;</li> <li>• As indicated in the standard, consider whether it is necessary to consult others such as a colleague or another practitioner. The biggest mistake an practitioner can make is the mistake he makes on his own;</li> <li>• If the practitioner becomes aware that uncertainties exist in the financial statements regarding the entity's ability to continue as a going concern, the practitioner will, pursuant to ISRS 4410, urge management to disclose or report the uncertainties or switch to other accounting policies in extreme cases. This can be done, for example, by insisting on disclosures that:               <ul style="list-style-type: none"> <li>○ explain how the entity expects to continue as a going concern;</li> <li>○ ensure that obligations under the financial reporting framework are complied with;</li> <li>○ prevent the historical financial information from being misleading.</li> </ul> </li> <li>• Chapter 3.2 describes possible effects on the compilation report in the event of a material uncertainty relating to going concern;</li> <li>• Where the entity is unwilling to include necessary disclosures, the practitioner will have to withdraw from the engagement;</li> <li>• The practitioner will have to properly document discussions and considerations regarding the corona crisis in the file;</li> <li>• According to the standard, the practitioner's procedures end on the day the report is issued. Therefore, the practitioner no longer has any formal responsibility for developments in the period thereafter. If the practitioner is or becomes aware of subsequent events that, based on the financial reporting framework, should lead to adjustments to the financial statements (for example, a disclosure), it is obvious that the practitioner will discuss this with management. However, the practitioner has no responsibility for this.</li> </ul> <p>Especially nowadays it is sensible to obtain a good understanding of ISRS 4410 and its guidance in NBA practice statement 1136.</p> <p>The NBA has received signs that timely and proper documentation is experienced as a problem in these exceptional times. The text above also mentions documenting a number of times. We are considering whether we can help practice with further explanation on this point.</p> |                        |                     |        |
| <p><b>6 Should the financial statements, which have not yet been adopted or approved, have to be adjusted due to new information on corona?</b></p>  |                        |                     |        |
| <p><b>6.1 Background</b></p> <p>There is regularly a period between the preparation of the financial statements by the board and the approval of the financial statements by the annual shareholders meeting. Developments with regard to the coronavirus follow each other quickly. It is therefore possible that the description of the impact of the coronavirus in the notes to the financial statements or the directors' report as prepared by the management board does not correspond to the situation at the time of adoption<sup>7</sup>.by the annual shareholders meeting. This can certainly apply to financial statements prepared shortly before the intelligent lockdown in the Netherlands and which are only adopted by the annual shareholders meeting after the lockdown . Obviously, that may also apply to the practitioner's attention to the corona crisis in the auditor's report.</p> <p>The question is what that means for the financial statements. Should the financial statements be adjusted or not for / following the discussion in the annual shareholders meeting? A question directly related to this is: Should the auditor's report be amended?</p>   |                        |                     |        |

<sup>7</sup> The official NL translation of IFRS as endorsed by the EU speaks of approval.

|       |                        |                     |        |
|-------|------------------------|---------------------|--------|
| Audit | Compilation and Review | Financial functions | Others |
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## 6.2 Should the financial statements be adjusted?

The general principle for financial statements is that the date on which management prepares the financial statements (in IFRS terms 'the date of authorisation for issue') is the date until which subsequent events are included. Users are expected to know that subsequent events will in principle not be accounted for.

There are a few exceptions to this described below:

### 6.2.1 Regulations in Book 2 Dutch Civil Code

Article 2: 362, paragraph 6, of the Dutch Civil Code states that the financial statements are adopted with due observance of what has appeared at the balance sheet with regard to financial matters which have occurred between the preparation of the financial statements and the annual shareholders meeting at which they are discussed, as far as this is essential for the understanding referred to in Article 2: 362 paragraph 1 of the Dutch Civil Code.

This does not apply to subsequent events, which do not provide information about the situation as at the balance sheet date. There is consensus that the corona crisis should be qualified as such. This is expressed in *RJ-Statement 2020-5: Impact of coronavirus on annual reporting 2019 from the Dutch Accounting Standards Board (Dutch GAAP)*. It says:

| Original Dutch text  | Unofficial translation  |
|--|---|
| <i>Derhalve worden de gevolgen van de uitbraak van het coronavirus aangemerkt als gebeurtenissen na balansdatum die geen nadere informatie geven over de feitelijke situatie op balansdatum (Zie ad 1 in RJ-Uiting).</i> | <i>Therefore, the consequences of the coronavirus outbreak are classified as subsequent events that do not provide further information about the actual situation on the balance sheet date (see ad 1 in RJ-Statement).</i> |

Article 2: 362 paragraph 4 of the Dutch Civil Code does not lead to a deviate from this premise in the Dutch Civil Code either. This article indicates that it is sometimes necessary to deviate from a special requirement of Title 9:

| Original Dutch text   | Unofficial translation   |
|---|--|
| <i>Indien het verschaffen van het in lid 1 bedoelde inzicht dit vereist, verstrekt de rechtspersoon in de jaarrekening gegevens ter aanvulling van hetgeen in de bijzondere voorschriften van en krachtens deze titel wordt verlangd. Indien dit noodzakelijk is voor het verschaffen van dat inzicht, wijkt de rechtspersoon van die voorschriften af; de reden van deze afwijking wordt in de toelichting uiteengezet, voor zover nodig onder opgaaf van de invloed ervan op vermogen en resultaat.</i> | <i>If necessary in order to provide the understanding as meant in paragraph 1, the legal entity shall disclose in the financial statements information in supplementation of what is required under the specific statutory provisions of and pursuant to this title. If necessary in order to provide that understanding, the legal entity shall deviate from these statutory provisions; the reason for such deviation is explained in the notes, where necessary with mention the impact thereof on equity and result.</i> |

However, article 2: 362 paragraph 4 is not a specific regulation but is part of the general provisions regarding the financial statements.

In the explanatory memorandum to this article 2: 362 paragraph 4 it states:

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| Original Dutch text  | Unofficial translation  |
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| <p><i>Lid 4 is de uitwerking van het zwaarstwegende beginsel dat de regeling omtrent de jaarrekening beheerst en dat ook in artikel 2 leden 4 en 5 van de richtlijn zijn uitdrukking vindt: de eis van de weergave van een getrouw beeld heeft voorrang boven die van nakoming van specifieke voorschriften, de in de tekst bedoelde «bijzondere voorschriften», zulks in tegenstelling tot de algemene bepalingen van de tweede afdeling.</i></p> | <p><i>Paragraph 4 is the elaboration of the overriding principle that governs the regulation of the financial statements and that is also expressed in Article 2, paragraphs 4 and 5 of the Directive: the requirement to give a true and fair view takes precedence over that of compliance with specific regulations, the «specific regulations» referred to in the text, contrary to the general provisions of Part Two.</i></p> |

This does not change the fact that management or the annual shareholders meeting can voluntarily decide to prepare and adopt the financial statements differently.

#### 6.2.2 Regulations in the Guidelines for annual reporting (Dutch GAAP)

In *RJ-Statement 2020-5: Impact coronavirus on the annual reporting 2019*, the Dutch Accounting Standards Board (RJ) also *discusses* whether or not to adjust the financial statements between the time of preparation and adoption<sup>8</sup>.

| Original Dutch text   | Unofficial translation  |
|---|---|
| <p><i>De ontwikkelingen die in de periode tussen het opmaken en het vaststellen van de jaarstukken bekend zijn geworden, dienen te leiden tot een aanpassing van de jaarstukken indien de continuïteitsveronderstelling vervalt (overgang naar liquidatiegrondslagen). Deze afweging dient door de verantwoordelijke organen binnen de rechtspersoon te worden gemaakt. We verwijzen hiervoor naar artikel 2:362 lid 6 BW en de alinea's 202 en 206 van Richtlijn 160 Gebeurtenissen na balansdatum. (Zie ad 4 in de RJ-Uiting)</i></p> | <p><i>The developments that have become known in the period between the preparation and adoption of the financial statements should lead to an adjustment of the financial statements if the going concern basis is not appropriate (transition to liquidation basis). This assessment should be made by the responsible bodies within the legal entity. We refer to article 2: 362 paragraph 6 of the Dutch Civil Code and paragraphs 202 and 206 of Guideline 160 Subsequent events<sup>9</sup>. (See ad 4 in the RJ-Statement)</i></p> |
| <p><i>Andere ontwikkelingen als gevolg van de uitbraak van het coronavirus in de periode tussen het opmaken en het vaststellen van de jaarstukken, waarbij geen sprake is van het vervallen van de continuïteitsveronderstelling, leiden niet tot de noodzaak om de jaarstukken aan te passen.</i></p>  | <p><i>Other developments as a result of the coronavirus outbreak in the period between the preparation and adoption of the financial statements, which do not involve the discontinuation of the going concern basis, do not lead to the need to adjust the financial statements.</i></p>   |

<sup>8</sup> Pay attention: basic principle for financial statements as at December 31, 2019 is that corona is considered as a subsequent event that does not give additional information about the actual situation at the balance sheet date (non-adjusting post balance sheet event).

<sup>9</sup> This explanation by the RJ deviates from a textual reading of, inter alia, Annex 1 to Guideline 160 'Subsequent events' regarding period b. However, RJ believes that this explanation does most justice to the situation that arises when the going concern basis is discontinued before the financial statements have been adopted, because the discontinuation of the going concern basis has an effect on the accounting in the financial statements as a result of the transition to liquidation basis. The RJ will assess further in the near future to explicitly include this explanation in the Guidelines for annual reporting.

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### 6.2.3 Regulations in IFRS

For IFRS financial statements, the date of authorisation for issue is relevant. This is the date on which management authorises the financial statements to present to the shareholders or a supervisory body (IAS 10 paragraph 4,5,6). It is important for users to know when the financial statements were authorised for issue because the financial statements do not reflect events that occurred after this date (IAS 10 paragraph 18).

Subsequent events are therefore defined in IFRS as events between the balance sheet date and the date of authorisation for issue (IAS 10 paragraph 3).

According to the regulations in IFRS, adjusting the financial statements is therefore not appropriate in this case. Of course, the management or the annual shareholders meeting may voluntarily choose to prepare and approve the financial statements differently. If this happens with a listed entity under the Financial Supervision Act (Wet op het Financieel Toezicht (Wft)) after the financial statements have been issued, for example on behalf of the annual shareholders meeting, this should be made public by means of a notice pursuant to Section 5: 25c paragraph 8 Wft , after approval at the annual shareholders meeting.

If a listed entity, or an entity that applies IFRS voluntarily, would like / needs to provide additional information to the public interest, the entity can / shall do so in a manner comparable to Article 5: 25c paragraph 7 Wft:

| Original Dutch text  | Unofficial translation  |
|--|---|
| <i>Indien tussen het algemeen verkrijgbaar stellen van de jaarlijkse financiële verslaggeving en de vaststelling daarvan, feiten of omstandigheden blijken die onontbeerlijk zijn voor het vormen van een verantwoord oordeel omtrent het vermogen, het resultaat, de solvabiliteit en de liquiditeit van de uitgevende instelling als bedoeld in artikel 362, zesde lid, eerste volzin, van Boek 2 van het Burgerlijk Wetboek, stelt de uitgevende instelling onverwijld een bericht hieromtrent algemeen verkrijgbaar.</i> | <i>If, between making the financial statements generally available and the adoption thereof, facts or circumstances appear to be essential for forming a responsible judgment regarding the equity, result, solvency and liquidity of the issuer as referred to in Article 362, sixth paragraph, first sentence, of Book 2 of the Civil Code , the issuing institution shall immediately make a generally available statement in this regard.</i> |

## 7 What are the implications of the situation described in Chapter 6 for the auditor's report?

The question then is how this is aligned with the audit standards and the auditor's obligations. The standards regulate this in ISA 560 *Subsequent Events*. This Standard describes In paragraphs 10 through 13 what the auditor should do with facts that become known after the date of the auditor's report but before the date of publication. After the auditor has issued the auditor's report, the auditor does not have to perform any audit procedures for this situation, as shown in paragraph 10.

Paragraph 10 in ISA 560 states that the auditor should determine whether the financial statements should be adjusted if a fact becomes known that if the auditor had known this at the time the statements were issued, it could have been reason to adjust the financial statements. This includes the situation that the corona crisis requires valuation on a liquidation basis.

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Pursuant to paragraph 10, if the auditor becomes aware of the fact as described above, the auditor should follow the following process steps:

- a discuss the matter with management and, where appropriate, those charged with governance;
- b determine whether it is necessary to adjust the financial statements; and if so,
- c inquire how management intends to address this matter in the financial statements.

As shown above, according to the financial reporting frameworks and Book 2 of the Dutch Civil Code, it is not necessary to adjust the financial statements if the valuation based on the going concern basis remains appropriate.

Pursuant to Dutch GAAP (RJ), the financial statements **should** be adjusted by management if the going concern basis is not appropriate. In that case, the auditor will, of course, need to obtain sufficient appropriate audit evidence about the adjustments to liquidation value.

Should the auditor have significant doubt about whether or not the going concern basis is (in)appropriate, while management adheres to the going concern basis, it is reasonable to have management's written representation. Also consider reconfirming the representation as described in paragraph 9 of ISA 560.

If the financial statements are adjusted, the auditor should provide a new auditor's report. This is evident from paragraph 11<sup>10</sup> (ISA 560), which requires the auditor to extend the audit and amend his report.

Among others, ISA 560<sup>11</sup> and ISA 570<sup>12</sup> can assist the auditor in determining what procedures are necessary.

Paragraph 12 (ISA 560) provides the option to include a second date when amending the auditor's report, indicating that the auditor's procedures are limited to reviewing the adjustments based on subsequent events. Due to the financial reporting frameworks, this is not possible in the situation described here.

Paragraph 13 (ISA 560) describes that if management is not required to adjust the financial statements under law and regulation, the auditor will not be required to adjust the auditor's report. This is the situation with regard to the coronavirus and a financial year ending on December 31, 2019 for which the going concern basis does not discontinue. This may also apply to financial years ending in the following two months, depending on the specific situation at the entity.

It is possible that the auditor concludes that the financial statements should be adjusted and that the entity refuses to do so. For example, the situation in which the auditor considers, based on professional judgment, that the entity should be valued on liquidation basis and that management does not want to do so.

Two situations are then conceivable:

- In accordance with ISA 570 and ISA 705, the auditor prepares another auditor's report that management includes in the other information and issues publicly in accordance with the applicable law and regulation;
- The auditor states that the entity should not file the financial statements with the Chamber of Commerce or Dutch Authority for the Financial Markets (AFM) or publish them in any other way. Should this happen, or if the financial statements have already been published, for example by providing them on the website, the auditor will take appropriate measures against this. All this follows from the second part of paragraph 14 of ISA 560. What appropriate measures are, depends

<sup>10</sup> And the realization thereof in paragraph 12.

<sup>11</sup> Subsequent Events.

<sup>12</sup> Going concern.

| Audit  | Compilation and Review | Financial functions | Others |
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| <p>upon the situation. Therefore the auditor may consider to discuss this issue with a colleague, consult with the technical office, obtain legal advice or consult the NBA.</p> <p>Whatever the auditor applies in this context, the situation surrounding corona is exceptional. It is therefore important that the auditor applies professional skepticism in determining, based on law and regulation, whether adjustments to the financial statements are necessary when confronted with facts as referred to in paragraph 10 (ISA 560).</p>  |                        |                     |        |
| <p><b>8 Deferral of payment of taxes</b></p> <p>Minister of Finance Hoekstra has previously announced that entities can get a tax deferral if they are in financial difficulties due to the consequences of the corona virus. The request for this had to meet certain conditions. In addition, a 'statement from a third-party expert' (for example, an accountant) had to be included.</p> <p>On 17 March, the government announced that it would simplify the rules for using this facility. According to the information provided, a 'third party statement' was still required in all cases. (See the letter sent by the cabinet to the House of Representatives<sup>13</sup>)</p> <p>It is now clear that such a statement is no longer necessary if the postponement lasts no more than three months. It is still unclear what the statement should look like if the postponement lasts longer.</p> <p>Although in many cases no 'third-party statement' is needed anymore, we expect that accountants, especially in SMEs, will often help their clients to register for the postponement. In addition, accountants should check whether there are financial problems due to the corona crisis.</p> <p>For statutory audit clients and especially for PIEs, the accountant should be alert to independence risks.</p>  |                        |                     |        |
| <p><b>9 Reduction of working hours</b></p> <p>There was already a reduction of working hours facility that was intended for entities to retain personnel if, due to a crisis outside normal business risks, there was a large loss of working hours. Due to the corona crisis, large amounts were claimed. The service organization that was executing this facility was not geared to this influx of applications. It was then decided with immediate effect to replace the facility with a temporary facility.</p> <p>Under the new facility, entities can receive a 90% contribution to wage costs based on loss of turnover for a period of 3 months. This period can be extended once for 3 months. This concerns advance payments based on an estimate of the entity of the loss of turnover.</p> <p>A few important principles for the facility are:</p> <ul style="list-style-type: none"> <li>• the first payment period is March, April and May;</li> <li>• the turnover loss relates to the three-month period starting on March 1, April 1 or May 1 (the reference period);</li> <li>• the turnover loss is in principle calculated by comparing the turnover in the reference period with the average quarterly turnover in 2019;</li> <li>• the loss of turnover should be determined at group level;</li> <li>• wage costs are determined on the basis of the salary of January 2020 or, if this is not known, of November 2019;</li> </ul> |                        |                     |        |

<sup>13</sup> <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/nieuws/2020/03/17/coronavirus-kabinet-neemt-pakket-nieuwe-maatregelen-voor-banen-en-economie>.



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- the wages are maximized at 2 times the SVW wages (social security wages);
- surcharge of 30% is paid on wage costs for social security charges, holiday pay, etc.

There are two preconditions:

- the entity may not apply for dismissal for economic reasons during the distribution period<sup>14</sup>;
- staff should be paid in full.

A settlement will take place afterwards in which an engagement report can be requested to demonstrate the loss of turnover. In the letter to the House of Representatives it says:

| Original Dutch text  | Unofficial translation  |
|--|---|
| <p><i>Hoe hoog de omzet in bepaalde periodes is geweest moet getoetst worden. Daarom is in beginsel een accountantsverklaring vereist. Voor de historische periode - in de regel 2019 - is die er in veel gevallen al (of in de maak), omdat dit aansluit bij de jaarcijfers. Er wordt naar gestreefd om binnen vier weken na publicatie van de regeling duidelijkheid te geven over onder welke grens een accountantsverklaring niet is vereist en indien een accountantsverklaring is vereist wat voor soort accountantsverklaring dat is. Zo is het mogelijk om bijvoorbeeld voor kleine subsidiebedragen, of voor ondernemingen met een hele kleine loonsom, geen accountantsverklaring te eisen, als op een andere wijze het omzetverlies voldoende aannemelijk is gemaakt of op andere wijze de controle heeft plaatsgevonden.</i></p> | <p><i>How high the turnover has been in certain periods should be tested. That is why, in principle, an engagement report is required. For the historical period - as a rule 2019 - it is in many cases already (or in progress), because this is in line with the financial statements. The aim is to provide clarity within four weeks after publication of the facility about the limit under which a engagement report is not required and if engagement report is required, what type of engagement report that is. For example, it is possible not to require an engagement report for small grant amounts, or for entities with a very small wage bill, if the loss of turnover has been made plausible in another way or if the 'check' has taken place in another way.</i></p> |

The NBA is in contact with the Ministry of Social Affairs and Employment (SZW) about the interpretation of the above. The NBA is aware that for many of the entities that make use of the facility in regular situations only a compilation report is issued. As soon as there is more to report about the engagement report, we will do so and indicate what the required activities are and what the sample report looks like.

In addition to issuing an engagement report, practitioners are of course now and soon involved in this facility in many other ways. For example, accountants in all sorts of roles assist in applying for the facility and they will assist in preparing the statement or they will keep the payroll administration. Be alert for signs that the entity does not meet the conditions for the facility or would like to provide incorrect information. This is not appropriate, so do not cooperate and warn management if necessary.

We understand that you are faced with ethical dilemmas. Discuss this with a fellow accountant (inside or outside the entity), with an advisor or contact (the confidential advisors of) the NBA.

The NBA realizes that the government has made a choice for a simple, fast and robust facility. This also means that the facility is not fully appropriate for all entities. As indicated earlier, the government is aware of this.

<sup>14</sup> There is a limited exception for this.

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| <p>There is a lot of support for this facility in the public. At the same time, all kinds of parties are rightly already concerned about the possibilities for abuse. That played a part in determining the facility.</p> <p>This does not detract from the fact that the government expresses that it is committed to supporting the economy and that new measures may be necessary. Here too, the motto is: 'Only together can we control corona'. That requires some understanding, no matter how difficult, some patience and solidarity.</p>   |                        |                     |        |
| <p><b>10 Services to public interest entities</b></p> <p>The Netherlands has strict regulations in the area of services to a public interest entity that they also audit. Only the audit services referred to in Article 24b Wta (<i>Wet Toezicht Accountantsorganisaties</i> Supervision Act on Audit Firms),<sup>15</sup> may be provided to these entities. In consultation with the Ministry of Finance, the NBA has noted that providing regulatory statements to ministries or entities such as the tax authorities or the UWV (<i>Uitvoeringsinstituut Werknemersverzekeringen</i>, Institute for Employee Insurance) as part of measures to mitigate the economic impact of the coronavirus on entities (for example, of the implementation of the NOW (<i>Noodmaatregel Overbrugging voor Werkbehoud</i> Emergency Measure for Work Retention) scheme or the third-party tax deferral statement), qualify as audit services.</p> <p>Article 4 (2) of the EU Regulation contains a limitation with regard to the amount of the audit services to be provided<sup>16</sup>, other than the statutory audit itself. The fees for these services should not exceed 70% of the average audit fees for the past three years. This limitation does not apply to audit services prescribed by European Commission or national legislation. The services described in the first paragraph are included.</p>   |                        |                     |        |
| <p><b>11 Relevant information from regulators</b></p> <p>Besides the NBA, a number of other regulators have also made relevant statements about the application of law and regulation in the field of financial reporting and auditing. The most important are listed below in alphabetical order, with a link to the relevant guidance included:</p> <p>CEAOB - CEAOB emphasizes the following areas that are of high importance in view of Covid-19 impact on audits of financial statements<br/> <a href="https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200325-ceaoob-statement-covid-19_en.pdf">https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200325-ceaoob-statement-covid-19_en.pdf</a></p> <p>EBA - EBA provides additional clarity on measures to mitigate the impact of COVID-19 on the EU banking sector<br/> <a href="https://eba.europa.eu/eba-provides-additional-clarity-on-measures-mitigate-impact-covid-19-eu-banking-sector">https://eba.europa.eu/eba-provides-additional-clarity-on-measures-mitigate-impact-covid-19-eu-banking-sector</a></p> <p>ESMA – Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9<br/> <a href="https://www.esma.europa.eu/sites/default/files/library/esma32-63-951_statement_on_ifrs_9_implications_of_covid-19_related_support_measures.pdf">https://www.esma.europa.eu/sites/default/files/library/esma32-63-951_statement_on_ifrs_9_implications_of_covid-19_related_support_measures.pdf</a></p> <p>RJ-Statement 2020-5: Impact coronavirus op de jaarverslaggeving 2019<br/> <a href="https://www.rjnet.nl/uitingen/2020/5/">https://www.rjnet.nl/uitingen/2020/5/</a></p> |                        |                     |        |

<sup>15</sup> In article 5 of the EU-Regulation these services qualify as non-audit services.

<sup>16</sup> The Regulation means *other non-audit services other than those referred to in Article 5(1) of this Regulation*.

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## 12 Final thoughts

Everything above is written from what we know or reasonably expect today. However, in the current crisis, the situation can change from hour to hour. This NBA Alert will be adjusted as soon as possible. We also try to provide you with FAQs and other information to inform you about relevant information for accountants.

Perhaps the most important advice at the moment: Try to help your relations where possible. It goes without saying that this should not be at the expense of safety, in order to safeguard the health of all Dutch people.

All accountants can use their knowledge and experience to help manage the consequences of the crisis for entities. Whether they assist within an entity in making crisis plans, help entrepreneurs make use of government regulations or help entities in accounting or audit them. Do this where possible, but do observe our ethical principles from the VGBA<sup>17</sup>. If in doubt, consult a practitioner or contact the NBA. The NBA will try to help you whenever possible!

<sup>17</sup> *Verordening Gedrags- en Beroepsregels Accountants*, Dutch Code of Ethics.

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