COVID-19 FORCES STATE AND BUSINESSES TO RETHINK ACCOUNTING AND RISK MANAGEMENT

The COVID-19 has thrown the globe at a standstill with various governments re-channeling their resources to combating the existing or anticipated threat to their nations. In the developed world, super powers such as the United States and China are battling the pandemic whist also staring at an unprecedented financial crisis last witnessed a decade ago. The 2008 financial crisis was the biggest economic downturn since the Great Depression and some world economies are yet to fully recover from its impact. Whether the COVID-19 virus will plunge the global financial markets to that level still remains to be seen.

In the macro- environment, the government, both at the National and County level stares at a decreased revenue collection from taxes and non- tax revenues whose effect will be felt both in the short term and medium term. In this regard, the Government will and is taking measures to mitigate against the effects of the pandemic. Some of the measures that may be taken in the short run include further austerity measures on government spending in the current fiscal year, review of current cash plans to accommodate the demands within the health sector, seek donations and grants to fight the pandemic and renegotiation of current debt repayment timelines among others. A stimulus package is also needed to cushion the economy from the effects of COVID-19 in the short and long-run. This may include an increase in government spending or a reduction in taxes in order to increase the fiscal space. In his national address on the 25th of March 2020, the President gave a directive to the National Treasury to undertake a raft of measures geared towards increasing the disposable income for the Kenyan citizens and organizations. These measures include 100% tax waiver for individuals earning a gross income of Kshs 24,000 and below, reduction in personal income tax from 30% to 25 %, reduction of corporate tax from 30% to 25%, turnover tax to decrease to 1% from 3% and Value Added Tax (VAT) to decrease from 16% to 14%. The President further directed cash transfers to the old and vulnerable be increased by Kshs 10billion, verified pending bills amounting to Kshs 13 billion be paid within the next three weeks and KRA to pay verified VAT refunds amounting to Kshs 10 billion be paid within the next three weeks.

Increased disposable income will provide a cushion for households in these hard economic times and offer them more money at their disposal to spend on necessities like food, shelter and water. In addition, companies and small businesses will afford to keep their employees longer following the relief given on the taxes. Although this move will decrease government revenue in form of taxes, the increased consumption arising from an increase in disposable income is expected to mitigate against hard economic times during and after the pandemic.

In adherence to Government directives, the public sector in Kenya has scaled down its operations to the core essential services with most of the employees working on a rotational basis. This means that service delivery is and will continue to be compromised. Government projects that were ongoing before the pandemic may not be completed before the end of the government's fiscal year ending on June 30th. The concept of working from home is new for most Kenyans and even stranger for the Government and public sector at large. Public sector entities need to devise administer creativity to ensure staff productivity through use of technology. Important deadlines also need to be kept in view to ensure seamless continuity of work flow once the pandemic is tamed and things get back to normal.

Large multinationals, medium- sized companies and small enterprises also continue to face unprecedented outcomes from the effects of the pandemic. These effects include decline in revenue, cash flow challenges, increased risk of default by customers, inability to repay debt and other obligations when they fall due, loss of inventory especially for perishable items and increased cost of doing business. Perhaps the worst effect comes from the uncertainty as to when and whether the pandemic will be contained. This uncertainty decreases the ability of businesses to plan for the future and may result to some entities taking stringent precautions while others may take a more relaxed approach in which case both approaches have their pros and cons based on the time it takes to tame the pandemic.

Indiscriminate sale of shares by investors at the Nairobi Stock Exchange (NSE) on the first day COVID-19 was reported in Kenya is a clear demonstration of the effect of the virus on the economy. The total market capitalization shrunk by Sh120 billion in one of the largest declines in a single day in the history of the Nairobi bourse. Kenya Airways estimates that it is losing at least Sh800 million a month, noting that the situation could change more dramatically in coming days as more restrictions in global travel come.

Globally, the International Air Transport Association (IATA) estimates that airlines worldwide are set to lose up to Sh11.3 trillion ($113 billion) in passenger revenues if the virus spreads further. In view of this, business entities need to review their business insurance policies to evaluate whether, it makes business sense to have business continuity insurance that may absorb such losses that may arise from temporary business closure.

Households are not spared either. In these uncertain times of COVID-19, households need to refocus and re-prioritize on their day to day expenditure. The decrease in disposable income means that households will only spend on necessities and cut- down or totally eliminate on luxuries. Another effect will be increased spending on health care in case the pandemic is untamed. This therefore means that households need to set aside some emergency funds for any unprecedented outcomes.

One of the greatest challenges for accountants during and after this pandemic will be to provide financial reports that promote transparency, relevance, reliability, comparability and understandability. This therefore demands that a detailed assessment is conducted on the effects of the pandemic against international accounting standards in order to ensure periodic and annual financial statements communicate objectively to aid in decision making processes.

Some of the considerations to be made include:

Issue/Expected outcome	**Accounting Standard**	**Considerations to be made**
Decreased revenue, lost revenue, modifications of contracts, revisions in pricing of commodities and services	IFRS 15: Revenue from contracts with customers and IPSAS 9: Revenue from exchange transactions	Entities may need to use significant judgment to determine whether a contract exists under the definition of IFRS 15 and to determine the uncertainties of the outbreak on revenue accounting including the timing and amount of revenue to be recognized in the financial statements. Enhanced disclosures will also need to be made for ongoing and future contracts.

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Decreased / delayed transfers by governments, decreased tax and fees revenues	IPSAS 23: Revenue from non- exchange transactions	Public sector entities will need to consider the amount and timing of revenue recognized. For example, the probability of transfer of funds by the government may be uncertain and therefore judgment must be applied before revenue is recognized. Both National and County Governments may also include a raft of measures to reduce or waive fees, licenses and taxes for the citizens. This will also require judgment in the nature and timing of revenues and an enhancement of the disclosures in the financial statements.
Increased government grants and other forms of assistance to businesses and companies to alleviate the effects of the pandemic	IAS 20: Accounting for Government grants and Disclosures of Government Assistance	Entities will be required to differentiate between government grants and other forms of assistance by the government. IAS 20 only covers government grants that are given as subsidies to an organization as a result of a past or future compliance with certain conditions relating to an entity's operations. In the wake of the pandemic Governments may provide tax reductions, rent reductions and government subsidies. All facts and circumstances should be taken into account before IAS 20 is applied as it

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		does not cover other forms of government assistance. For example tax credits may fall under IAS 12 or IAS 20 while a reduction in rent falls under IFRS 16 or IPSAS 13.
Expected increase in provision for bad and doubtful debts on financial instruments	IFRS 9 and IPSAS 41 on financial instruments	Entities will require to review their scenarios and weightings included in their Expected Credit Loss (ECL) models given the new information on the pandemic. Key consideration is the fact that there will be a credit loss if the lender is not compensated in case of time value for money as it will arise when borrowers will delay to make their contractual obligations. For entities under the IPSAS reporting framework, the consideration will be whether to early adopt IPSAS 41 which becomes effective 1st Jan 2022 especially for entities with significant financial instruments.
Economic stimulus packages through tax concessions and rebates. The Government of Kenya has already reduced the corporation tax from 30% to 25% and turnover tax from 3% to 1%. VAT credits amounting to Kshs 10billion were also declared by the President.	IAS 12: Income taxes	The considerations entities will need to make include the period within which the concessions take effect. This will determine the rate at which companies with year ends within the year 2020 may use a different rate from those whose years ended in December. Additionally, tax credits need

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		to be assessed as to whether they meet the definition of government grants under IAS 20 or whether they should be offset against future tax payments which would then fall under IAS 12.
Going concern- As many entities grapple with the pandemic, not all entities will be able to bear its brunt. Some of the most affected are the airlines, and businesses in the hospitality and tourism sectors.	IPSAS 1 and IAS 1	Entities are supposed to evaluate their ability to continue as a going concern and whether the assumption of going concern is appropriate at the reporting date. The extent of evaluation will vary from business to business depending on the nature and magnitude of the effects of the pandemic.
Events after the period end	IAS 10 and IPSAS 14 on events after the reporting date	The considerations to be made include as to whether the COVID- 19 pandemic and its effects are adjusting or non- adjusting events especially for entities whose year-end was 31st December 2019. Where judgment is made that these events were non- adjusting, decisions on the detail and nature of disclosures in the financial statements should be made. This assessment will also depend on the sector and nature of business of the company irrespective of whether the effects of the pandemic are favorable or unfavorable.

The other considerations that require to be made by management of different organizations and the government are related to risk management. COVID-19 pandemic is a black swan of a scale unpreceded in modern history. The pandemic represents significant systematic risks which require organizations to relook at their business models and lay out contingency plans and activate other risk treatment options to address the threats presented by the pendemic and take advantage of any emerging opportunities. Going forward, risk management tools should be made more robust to include such pandemics whose effects are unprecedented and should cover the whole business cycle. The Government should consider a fiscal policy that anticipates natural disasters and pandemics and develop tools to deal with the effects. Business should also consider risks associated with sudden change in business cycles, staff working from home, risks associated with development of new IT tools that enable working off- site, change management for staff and organizations and staff productivity in times of uncertainty and isolation.

The COVID-19 pandemic, once contained will leave some valuable lessons for all sectors of the economy. It will have changed the way we view technology, working from home, flexi- working hours, households saving culture, government and institutional risk analysis, government fiscal policies that have fiscal space for disasters, curbing corruption, improvement of our health systems, anticipating and embracing change among others. This are lessons we can take to the next generations as we seek to rebuild our nation once this dust has settled.

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