

RUSSELL CORPORATE ADVISORY NEWSLETTER

Annual Report and Financial Statements – extension of time to lodge, & important considerations for preparation and audit

ASIC announced on 9 April 2020 that some companies will be allowed an extension of 1 month to lodge audited financial statements, where they have financial years ending between 31 December 2019 and 31 March 2020.

Many clubs have a financial year ended 31 December and this means that they now have until 31 May 2020 to complete their audited financial statements and lodge these with ASIC.

Remember also that for clubs with a 31 December year-end, ASIC has previously announced that it will not penalise clubs for holding their AGM up to 2 months later than required ie. by 31 July.

ASIC are also monitoring how COVID-19 developments are affecting financial reporting and AGM obligations for entities with year-end dates after those mentioned above and may announce relief for these companies if deemed necessary.

The bigger issue is that even with the time extensions granted, when completing the financial statements, the club will need to assess how the shutdown and future uncertainty around COVID-19 has affected the audited financial statements, such as a reduction or "impairment" of asset values, or the ability to continue as a going concern.

Directors and club executive officers will need to carefully assess whether the club can continue as a going concern in light of the COVID-19 pandemic. This consideration is particularly relevant when completing the Directors' Statement and other disclosures. This usually involves understanding forecast cashflows for the next year, and banking covenant compliance if applicable, and if solvency is brought into question the directors' will also need a formal plan documenting how they intend to work through their solvency issues,

whether they are relying on temporary "safe harbour" provisions, and if so ensuring they meet the ongoing requirements.

These issues have already been flagged by the peak auditing bodies. In March 2020 the Australian Accounting and Auditing Standards boards released a list of FAQ's for auditors and financial report preparers, to consider the impact of COVID-19. The introduction in the paper states "*auditors should be alert and exercise professional scepticism about the potential for these conditions to give rise to possible financial reporting misstatements*".

The paper flags that both the company and auditor need to consider the impact of COVID-19 on the business, including the impact of events *after* balance date, and make any adjustments to balance date amounts and financial statement disclosures. There may well be adjustments and disclosures that arise from the inherent significant uncertainty in balances and forecasts arising from the pandemic, and unknown duration of the impact.

Auditors will most likely need to update their risk assessment when planning the audit and may ask for additional management representations and may provide a revised audit engagement letter to allow for changes to their assignment.

This highlights the need for clubs to fully understand their current and future financial position, and proactively discuss this with their auditor/advisor as soon as practicable.

For further information about your club's financial reporting obligations, contact Greg Russell or Harry Harris

on (02) 9957 6700 for an obligation free discussion about your Club's circumstances.

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