



IFAC'S POINTS OF VIEW

Maintaining Trust & Confidence During a Crisis

Lessons Learned from the Global COVID-19 Pandemic

Every crisis is different. In recent history, we have seen crises of systemic scale driven by asset bubbles, acts of terrorism, and the coronavirus. While the causes and impacts are largely unpredictable, one thing is certain—the next crisis will come.

In any crisis, companies, professional firms, public sector entities, and private organizations have, first and foremost, a responsibility for the well-being of their employees, customers, and communities. While not typically on the front lines directly confronting a threat, professional accountants across the world provide strategic and operational expertise, integrity, reliability, and transparency of information needed for economies to function, even during a crisis. Fortunately, remote locations and today's virtual technology allow employers of professional accountants to better align the needs of their employees and clients with a commitment to keeping businesses, governments, markets and economies functioning.

Crises can disrupt our places of work, our homelife, and our mindset, with repercussions for internal controls and processes, personal and professional behavior, and decisions made in the face of uncertainty and incomplete information. Such challenges impact the important services professional accountants provide and can shake the foundation upon which relevant, reliable and high-quality information—relied on by boards and the leadership of reporting entities, government/regulatory policymakers, investors and other stakeholders—is based. When these challenges emerge and the importance of high-quality information is heightened, the expertise, trust and judgment of the accountancy profession is tested and must truly shine.

Every crisis teaches us something new about how best to prepare for, mitigate, or even try to prevent the next event. Society needs professional accountants, as an essential component of a sustainable and resilient global economy—guided by their fundamental ethical responsibility to act in the public interest. Maintaining trust and confidence *during* a crisis is the fastest path to recovery *after* a crisis.

2. Role of Regulators and Standard-Setters

Regulatory bodies that oversee corporate reporting serve to protect the interests of investors and other stakeholders who rely on the public information companies provide. In uncertain

times, regulators must embrace their prudential role to engender confidence in markets.⁹ Collaboration with companies, auditors, and other critical service providers is needed, in addition to providing effective oversight. An outcomes-focused approach, proportionate to specific circumstances, will support the important work that must be performed by the profession during a time of crisis. After a crisis, there are often calls for new regulations to “fix” past problems.¹⁰ But, the importance of strengthening governance and enhancing focus on ethical behavior—in combination with effective prudential oversight and refinements in regulatory requirements—cannot be overstated.¹¹

- What is needed most during times of great uncertainty is direct, multi-stakeholder dialogue among regulators, corporates, investors, and various constituents of the accountancy profession that proactively identifies and improves understanding of crisis-related issues and impacts. IFAC supports early action on the part of regulators to directly engage with companies and provide appropriate guidance—in efforts to support the reporting of high-quality information for shareholders and stakeholders. Dialogue across jurisdictions, not just nationally focused, can and should take place to avoid regulatory fragmentation. We urge regulators to take proactive steps—during and after any crisis—to establish these stakeholder networks in order to be “crisis-ready” for the next event.
- IFAC believes that principles-based financial reporting standards provide the most effective framework for reporting relevant and comparable information, regardless of company, industry, country or market-specific circumstances, including in times of crisis. The alternative—a rules-based approach—can be more rigid and prone to modification or suspension when special situations arise. Legislators and regulators must carefully consider the implications of any crisis-time interventions and ensure coordination with, and support from, appropriate standard-setting bodies. We urge standard-setters to be steadfast in defending their due process. The impact of any such relief needs to be appropriately disclosed by reporting entities.¹²
- Compliance with standards should always take precedence, even if delays in filings are required to ensure reported information is high quality. IFAC supports reasonable and temporary extensions and regulatory relief provided by regulators during a crisis so as to appropriately balance the need for timelines in corporate reporting with ensuring reliable reporting.¹³
- IFAC encourages companies to be proactive in considering what interim reporting is appropriate to keep stakeholders informed and whether additional steps (e.g., the issuance of a Form 8-K in the U.S. or other forms of disclosure) are warranted.¹⁴ Times of material disruption in market conditions and operating environments should prompt regulators to evaluate whether their jurisdiction-specific requirements should be enhanced—including frequency of reporting (i.e., quarterly, semiannually, or annually)—balancing the operational impact of reporting enhancements with ensuring sufficient transparency and information is provided to maintain confidence in companies and markets at all times.

- During a systemic crisis, despite the best of intentions and hard work, the risk that the future will not unfold in a way portrayed by a company will significantly increase.¹⁵ Management will struggle with assumptions, estimates, and judgments in the face of uncertainty and volatility. Uncertainties may raise questions about going concern.¹⁶ In anticipation of these challenges, regulators must openly communicate with and help inform the expectations of markets, investors, and other stakeholders—appropriate for the unusual facts and circumstances. In this context, we reiterate our support for the communication of Key Audit Matters (under ISA 701) and Critical Audit Matters (under PCAOB AS 3101) to bring needed transparency to new, crisis-driven matters that require significant auditor attention.¹⁷
- In some jurisdictions, audit partner or firm rotation policies are practiced to enhance auditor independence. We recommend regulators, boards and management be pragmatic and re-evaluate pre-existing plans to change audit engagements or personnel under crisis circumstances in the interest of relevant, reliable and comparable corporate reporting so that continuity and detailed knowledge of an audit client’s operations, processes, and personnel can be maintained.¹⁸
- Similar to post-crisis regulations that emerged regarding living wills for large financial institutions or opinions on public company internal controls (e.g., based on COSO criteria developed in the U.S.), IFAC encourages regulators to evaluate whether certain reporting entities should provide investors and other stakeholders with an annual “resiliency analysis”—a report that specifies critical factors for success of a business, identifies inherent vulnerabilities and dependencies in the business model, and explains any reasonable crisis/back-up contingency policies developed by management, consistent with an Integrated Reporting Framework approach.¹⁹

9 Statement by Jay Clayton, Chairman of the U.S. Securities and Exchange Commission (March 26, 2020): “The Securities and Exchange Commission and other financial regulators are focused on two overriding and interrelated issues. First, we are facing an unprecedented national challenge—a health and safety crisis that requires all Americans...to significantly change their daily behavior.... Second, the recognition that **the continuing, orderly operation of our markets is an essential component of our national response to, and recovery from, COVID-19.**”

10 In the aftermath of the 2008 financial crisis, results from the [IFAC Global Regulation Survey 2015](#) found as many as 84% of respondents expected the impact of regulation to be “more” or “much more” significant to their organizations over the next five years. Retrospectively, as many as 83% reported the impact of regulation being “more” or “much more” significant than during the prior five years.

11 [From Crisis to Confidence: Good Regulation, Governance, and Culture – Working to Regain Public Trust in Financial and Capital Markets, Business, and Government](#)

12 For example, see [Congress should leave accounting standards to FASB](#) by Shana Clor-Pruell and Brian White in Accounting Today (“Arbitrary and ad hoc promulgation of accounting standards, calls for exemptions or options to delay compliance, such as those in the CARES Act, must not be permitted to undermine the FASB’s established, authoritative process.”)

13 For example, with respect to the COVID-19 pandemic: i) the Global Public Policy Committee has compiled a [report on publicly available information about shifting regulatory obligations covering over seventy jurisdictions](#), ii) the FRC has encouraged UK “companies, as appropriate, to [make use of the extension announced by the FCA to the deadline for publication of audited annual financial reports](#) from four to six months from the end of the financial year.”

14 With respect to interim reporting, IOSCO has encouraged “[more robust disclosures of material information and management’s response to the changing circumstances.](#)”

15 The Chairman of the PCAOB, William Duhnke, is also reported to have [commented in the context of COVID-19](#): “Auditor judgment becomes even more critical to high quality audit under these unique circumstances. While we will not second guess reasonable judgments, we will confirm that those judgments are consistent with our standards.”

16 [IAASB Staff Audit Practice Alert on Going Concern in the Current Evolving Environment](#)

17 IFAC Point of View – Achieving High Quality Audits, [The Right Process](#)

18 Note, the International Code of Ethics for Professional Accountants (including Independence Standards), “the Code” includes [provisions for audit partner rotation that must be considered](#).

19 Recommendation 18 of the [Report of the Independent Review into the Quality and Effectiveness of Audit](#) (December 2019) proposes a different approach—a three-part statement by a company’s board that “...incorporates, enhances and builds on already-existing Going Concern and Viability Statements” required for certain reporting entities in the UK

3. The Role of the Accountancy Profession

Professional accountants in business, public practice, and the public sector are key players, along with TCWG and regulatory bodies, in upholding the quality of reporting and providing markets and the broader public with reliable information. When extreme, uncontrollable events disrupt normal business operations, information provided in the management commentary, risk factors, and notes to the financial statements provide the needed insights into the performance and viability of a company. Crisis environments can also invite fraud and heighten the scope for error as new opportunities and pressures arise for management, employees and external parties. These circumstances can prove challenging for making sound judgments and estimates in the face of uncertainty, for meeting deadlines, and for quickly adapting internal procedures. The ethical responsibilities, training, and expertise that define what it means to be a professional accountant are needed more than ever.

- We believe that Professional Accounting Organizations (PAOs) are best positioned to understand jurisdiction-specific facts and circumstances that arise in a crisis and should be active participants, on behalf of the profession, with regulators and other concerned parties. IFAC stands ready to convene and facilitate such dialogue on behalf of the global profession with regulators and other stakeholders.
- When normal operations are not possible or practical, the profession must adapt and innovate in order to fulfill its obligation to adhere to reporting requirements and mitigate the impact of crises on the flow of information. Technology is key to turning operational disruptions into business as usual. IFAC believes that advocating for greater technological readiness and better access to data on the part of employers and clients is a key responsibility of professional accountants—including those operating in small or medium-sized environments—and essential is to being better prepared for the next crisis.²⁰
- When adaptations and innovation fail to provide sufficient appropriate audit evidence or when significant issues or material uncertainties are uncovered during the audit process, firms should continue to be steadfast in considering potential implications for the auditor’s report—be it the

inclusion of appropriate key/critical audit matters, emphasis of matter paragraph or material uncertainty related to going concern paragraph, or a modified opinion, as necessary.

- During the best of times, and especially during times of crisis, all enterprises, regardless of their size, rely on professional accountants—not only for transactional services—but for help in solving critical business problems. While maintaining independence and objectivity, we believe that the multidisciplinary expertise of firms, and the professional accountants they employ, are well positioned to provide assistance to companies with respect to scenario planning, risk assessments, critical judgments, interpretations, estimates, and valuations, in addition to providing resources and expertise needed for emergency steps that can help secure the short-term viability of an entity. In particular, during a crisis, small and medium size entities (SMEs) face unique challenges and need the expertise of their professional accountant as trusted advisor and problem solver. Small- and medium-sized accountancy firms must answer this call.²¹
- A crisis environment requires increased focus on judgments, risk taking, decisions, or conflicts of interest that can arise as professional accountants fulfill their role as trusted intermediaries of high-quality information, strategic and commercial advice, and fact-based decision making. IFAC supports the fundamental principles of the IESBA Code—integrity, objectivity, professional competence and due care, confidentiality, and professional behavior—cornerstones of the profession’s public interest mandate. PAOs, the eCode, and other guidance materials provide support to professional accountants in navigating uncharted situations in uncertain times.²²
- Making the right call—how accountants apply professional judgment and act in an ethical manner—is not straightforward. Even more during a crisis, IFAC sees value in professional accountants seeking trusted advice from internal colleagues, an objective and expert third party, or their PAO. IFAC encourages PAOs, companies, as well as professional practice firms to develop crisis support plans to best enable professional accountants to uphold their responsibility to their employers and their profession.

²⁰ In its [analysis of impacts from the COVID-19 pandemic](#), ACCA comments that “...the Covid-19 crisis is a call to arms for smaller accountancy firms to transform further. Digital transformation of SMPs is key to accelerating the pace of change, ensuring durability, and driving better understanding of client needs.”

²¹ ACCA’s [analysis](#) also indicates that SMEs face challenges with respect to reduced customer purchases, cash flows, breaches of contracts, ability to defer or renegotiate debt, ability to shift focus beyond short-term issues, or ability to respond to work-at-home arrangements, compared to larger entities.

[Accountancy Europe \(AE\) conducted interviews](#) with 18 people from practice, including regulators and audit committee chairs. Based on this insight, AE concludes: i) multidisciplinary audit teams contribute to high-quality audits; ii) auditors benefit from experts’ input, especially from internal ones; iii) firms should further develop their capability to work with internal experts; iv) firms should stay multidisciplinary to meet evolving expectations from the audit; and v) auditors’ priorities remain audit quality, the public interest, independence and ethics.

With respect to the impact on amounts recognized, measured and presented in financial statements, [IOSCO has suggested](#) that “it is

important that issuers utilize appropriate skills and competencies in areas such as fair value measurement, impairment assessments. Issuers may wish to consider whether additional expertise is needed to assist management in fulfilling their responsibilities to prepare financial reports.”

22 See the IESBA [Code of Ethics for Professional Accountants](#); IESBA eCode: [Exploring the IESBA Code](#); [COVID-19: Ethics and Independence Considerations](#), Staff Questions and Answers, May 2020