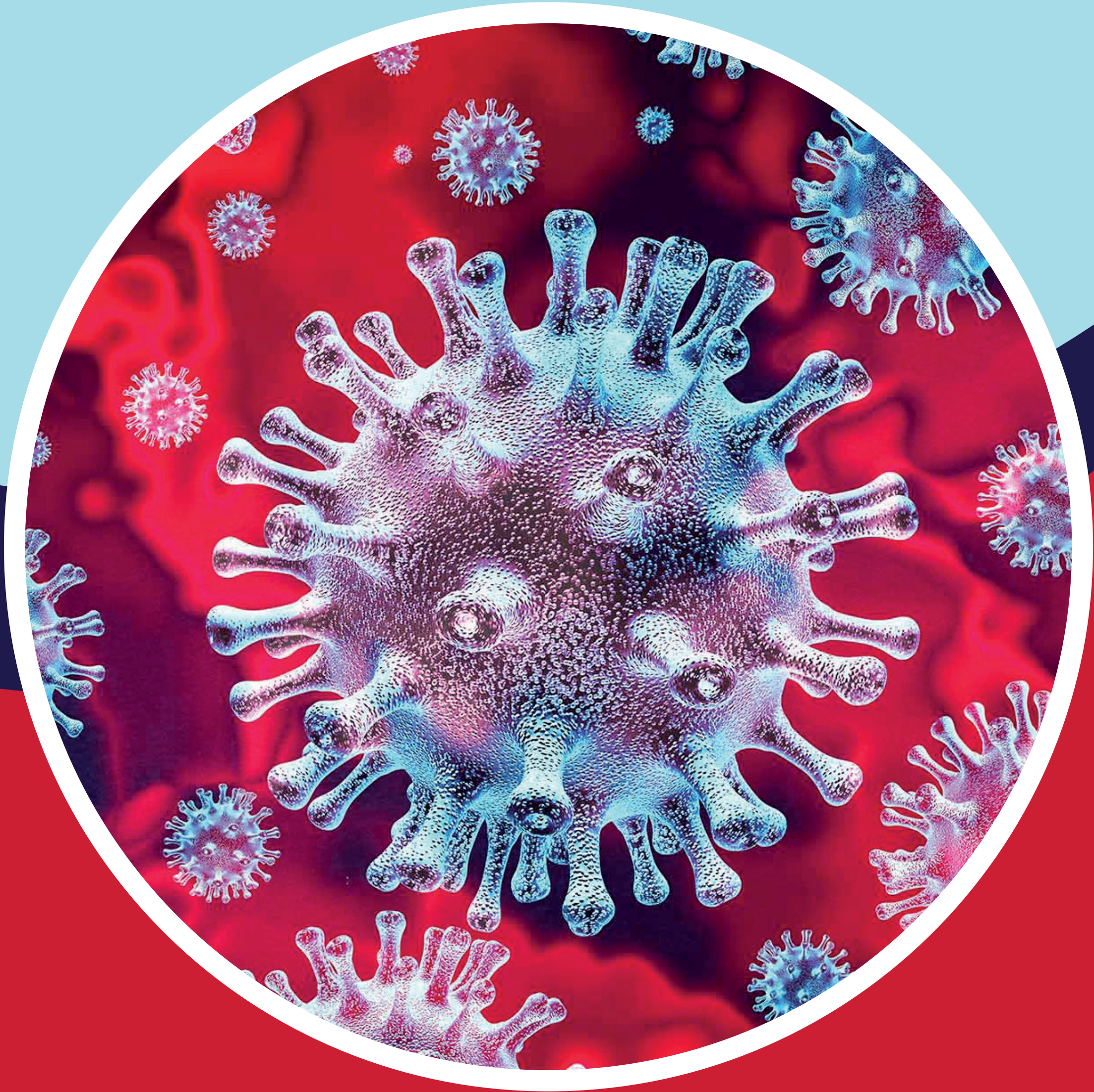
ACCOUNTING, GOVERNANCE AND INTEGRATED THINKING IN THE CONTEXT OF COVID-19



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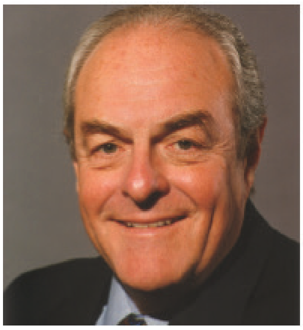
ABBREVIATIONS USED

ALSI	JSE All Share Index
CDSB	Climate Disclosure Standards Board
CIPC	Companies and Intellectual Property Commission
CSRO	Chief Stakeholder Relations Officer
CVO	Chief Value Officer
ESG	Environmental, social and governance
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICGN	International Corporate Governance Network
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
King IV	King IV Report on Corporate Governance for South Africa 2016
PPE	Property, plant and equipment
SDGs	Sustainable Development Goals
SENS	Stock Exchange News Service
UNPRI	United Nations Principles for Responsible Investment
WHO	World Health Organisation

FOREWORD



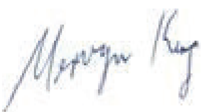
The global outbreak of COVID-19 and the announcement of a countrywide lockdown in March 2020 by President Ramaphosa has undoubtedly impacted every South African. Not since the emergence of democracy in the early 1990s have we seen anything close to the levels of economic, political and social uncertainty being faced by organisations, their employees and society in general.

This is not the first time that the world has been threatened by dangerous diseases. The archaeological evidence points to numerous outbreaks in the ancient world. The Black Death claimed millions of lives in Medieval Europe. The Great Plagues of Marseille (1720s) and Russia (1770s), the Philadelphia Yellow Fever (1790s) and American Polio Epidemic (1910s) have been well documented. Spanish influenza is thought to have killed up to 500 million people in the early twentieth century while, since its discovery in the 1980s, HIV continues to pose a severe health threat, especially in the developing world.

Fortunately, the fatality rate for COVID-19 is relatively low, but the impact which it has had on the health care system, the global economy and individual families is astounding. It is the most recent global health disaster in living memory and a stark reminder that we cannot continue with an attitude of 'business as usual'.

While governments enforce lockdowns and scientists grapple with the development of a vaccine, the business community must mobilize to accelerate progress on achieving the sustainable development goals outlined by the United Nations. COVID-19 has confirmed the vulnerability of business models grounded in a short-term pursuit of financial gain. An integrated thinking mindset is required to balance economic, environmental, and social imperatives for the benefit of an organisation and its stakeholders - not only the providers of financial capital.

This report provides some interesting ideas to help companies with the application of integrated thinking. It touches on important areas on which those charged with an organisation's governance should be focused. These include technical issues related to financial statements, assurance engagements and tax relief. A brief and easy-to-understand explanation of integrated thinking is also provided with recommendations for boards of directors.



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OVERVIEW

On 11 March 2020, the World Health Organisation (WHO) announced that COVID-19 was a pandemic [1]. On 15 March 2020, the South African Government declared a national disaster. Consistent with other countries (such as Italy, Denmark and the UK) a lockdown was implemented restricting the movement of non-essential workers. It remains in effect at the time of writing this report.

Not since the 1920s has the global economy been this severely disrupted because of the outbreak of a dangerous disease. Companies are faced with unprecedented challenges to their business models, governance systems and financial viability. This report is not a substitute for professional advice but it outlines those areas which those charged with an organisation's governance should be considering.

These include:

- business continuity
- reassessments of strategy
- balancing flexibility with monitoring and control
- managing risks and opportunities
- governing financial metrics and
- ensuring active stakeholder engagement

This report is complemented by a more detailed analysis of the financial reporting implications of COVID-19 with a specific focus on companies which are required to report financial results to the JSE or other stakeholders. Examples include the impairment of non-financial assets, modifications to contracts with customers and amendments to share-based payment arrangements. A short review of assurance developments and the tax relief available to companies is also provided. The report concludes with an explanation of integrated thinking. The case for a more holistic approach to business management is made followed by practical recommendations on how to promote an integrated thinking mindset.

Additional research will be required to assess the impact of COVID-19 on the South African economy and evaluate how companies have responded to the pandemic. While policymakers and academics collect and analyse the relevant data, we hope that this report will be useful for assisting those responsible for an organisation's governance with discharging their fiduciary duties.

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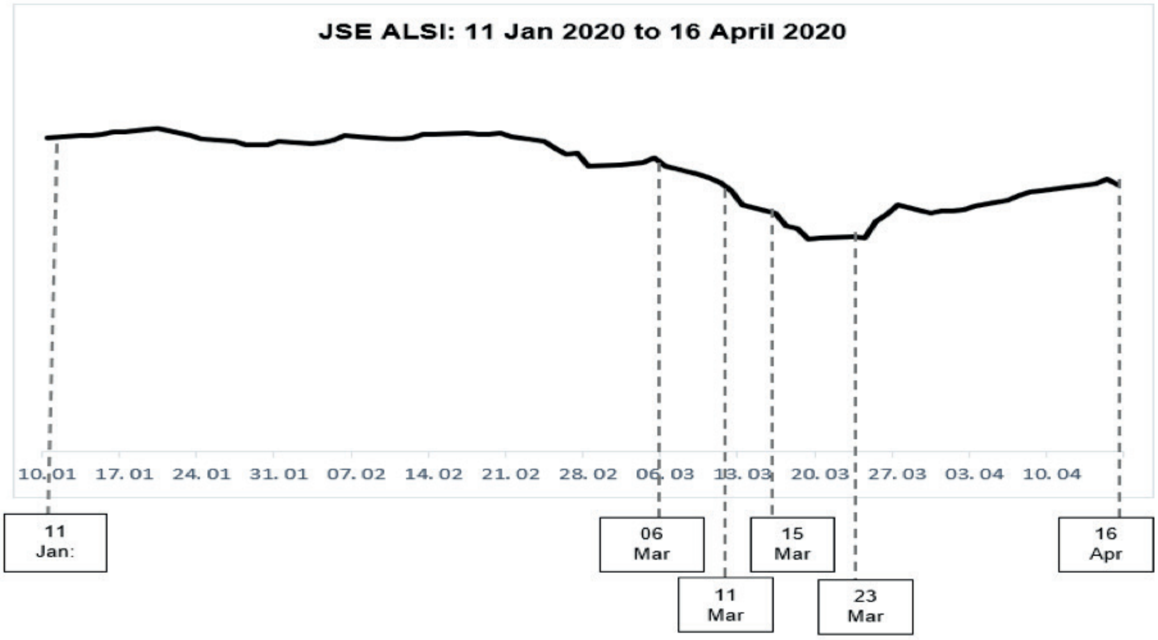
1. A BRIEF NOTE ON THE IMPACT OF COVID-19

COVID-19 has had an extraordinary effect on the global economy. While ordinary South Africans were worrying about sanitizing their hands and maintaining 'correct social distances', almost every sector of the economy has been thrown into turmoil. Moody's lands the final blow, announcing that South Africa is now at sub-investment status[1]. The likelihood of a 6% contraction in South Africa's GDP is now a real possibility with no clear indication of when (or if) the economy will recover.

COVID-19 has not only impacted financial markets, but it will also change the very construction of contemporary society. Changes in the way (and location from which) people work are inevitable. Our dependency on technology is now undeniable. We have learned much about people's buying habitats, including their fondness of toilet paper and frozen pizza. In addition to supply chains, family dynamics are being tested. Children have had to adjust to online learning. Parents have had to adjust to their children and each other. Most startling are the images showing reduced air pollution and wildlife returning to once congested cities. They are a reminder that the rest of nature does better without us [3].

Quantifying the extent of COVID-19 on the economy, the environment and society will keep policymakers (and academics) very busy in the coming months. Rather than speculate, Figure 1 focuses only on the JSE's immediate reaction to the emergence of the new virus in South Africa.

Figure 1: JSE all-share index



(source: Equity RT [4])

[1] This is not only because of COVID-19 although the pandemic, undoubtedly, played a role in the rating agency's final decision.
[2] A more robust event study incorporating a comparative analysis of the reactions in other emerging economies will be required to provide clearer conclusions

The significant events shown in Figure 1 are:
- 11 January: China announces the first COVID-19 related death
- 06 March: the first COVID-19 case is detected in South Africa
- 11 March: WHO declares COVID-19 a pandemic
- 15 March: national state of disaster is announced in South Africa
- 23 March: national lockdown is announced in South Africa

Over the period shown in Figure 1, there is a 28% fall in the JSE ALSI. The decline occurs over ten days from the first detected case of COVID-19 in South Africa. From this lowest point, the market recoups some losses with the index climbing 2% in the following 17 days. On 16 April, the JSE ALSI was down 15% from the 11th of January[1].

In 'Judgement under uncertainty', Tversky and Kahneman [5] explain that the human mind is likely to resort to rules of thumb (or heuristics) when required to make decisions under uncertain conditions. Heuristics simplify the processes of evaluating probabilities and calculating values for expected scenarios. Research in cognitive psychology shows that, while heuristics are helpful in situations requiring immediate action in response to potential danger, more calculated and methodical thinking is needed for complex decision-making. Buying, holding or selling shares are examples [6].

There can be a significant gap between perception and reality when it comes to assessing and managing risk [7]. People may over-react or behave irrationally [8]. Instances, where risks may be exaggerated are summarised in the first column of Table 1. The second considers if these contexts may apply to the ongoing pandemic.

Table 1: Risk Perception

People exaggerate risks which are:	Could these circumstances apply to COVID-19?
Spectacular (high impact)	✓
Rare	✓
Personified (rather than anonymous)	✓
Beyond their control (or externally imposed)	✓
Discussed extensively	✓
Intentional or man-made	✓
Immediate (rather than long-term)	✓
Sudden	✓
Affecting them personally	✓
New or unfamiliar	✓
Directed against their loved ones	✓
Morally offensive	✓
Entirely without redeeming features	✓
Not like the current situation	✓

(adapted from Schneier [7])

There are very few who would disagree that COVID-19 is spectacular. As mentioned in the Foreword, the Spanish Flu of 1918 was the last time the world had to grapple with a global outbreak. For many South Africans, the virus has had, at least, some impact on them and their families. Continuous media coverage is essential for keeping informed but has probably contributed to higher levels of anxiety. While the cliché tells us that ‘every cloud has a silver lining’ it can be challenging to be optimistic after more than two weeks of confinement and the Rand at historic lows against *all* major currencies. There is no scientific evidence that the virus is human-made, but the conspiracy theories circulating on social media certainly are and, in our view, are ‘morally offensive’.

Returning to Figure 1, the improvement in the ALSI over a relatively short period raises questions about the extent to which market participant have reacted to the pandemic. We are not suggesting that COVID-19 can be dismissed as immaterial or short-term, but the behavioural finance research warns us that people are *not* scientific when they identify and respond to risk [5, 6]. Each of the indicators points to an over-reaction to the adverse events of COVID-19, reinforcing the position that a careful and methodical response is required rather than a knee-jerk reaction. The remainder of this report discusses some of the business implications of COVID-19. The report also provides some recommendations to assist those charged with an organisation’s governance during this time of uncertainty.

2. THE GOVERNANCE OF COVID-19

Navigating in the world of business is not easy at the best of times. The appearance of COVID-19 makes this journey more anxious and will require skill from both governing bodies and management teams.

At the outset, it is critical to draw attention to the crucial role of the governing body - to monitor and to provide strategic direction; not to perform daily management tasks. While times of crisis require more frequent interaction between management and those charged with governance, a clear distinction between their roles must be upheld. Section 2.1 of this report discusses some of the important areas for the consideration of governing bodies. Section 2.2 provides an overview of the information companies have been reporting to the capital market as the COVID-19 disaster unfolds.

2.1: Focal points for those charged with governance[3]

King IV obliges the governing body to ‘serve as the focal point and custodian of corporate governance in the organisation’ [9]. This report touches on some issues for consideration by those charged with an organisation’s governance. These include:

- business continuity,
- reassessments of systems and processes,
- balancing flexibility with monitoring and control,
- managing risks *and* opportunities,
- governing financial metrics and
- ensuring active stakeholder engagement.

[3]This report uses the terms ‘those charged with governance’ and ‘governing bodies interchangeably’. ‘Boards of directors’ are an example of a governing body when referring specifically to companies

BUSINESS CONTINUITY

Universally, codes on corporate governance emphasise the importance of business continuity and resilience plans as part of the risk management of the organisation [10]. For many organisations, COVID-19 will result in material uncertainty about the going concern assumption. A liquidity crunch, declining market conditions, operational challenges and breaching debt covenants can result in a business having to close its doors permanently.

Governing bodies need to obtain regular updates on their organisations' ability to continue as a going concern and the plans management teams have in place to ensure continuing business viability. Managements' plans should include careful consideration of how government relief funds can be accessed to provide much-needed liquidity. In more extreme cases, the governing body may feel compelled to initiate business rescue proceedings to ensure temporary protection from creditors. It is unlikely that the business continuity plans catered for the widespread and unprecedented impact of a new virus. Areas that governing bodies should consider:

- understanding management's plans to ensure the safety of employees and to receive sufficiently regular updates on progress made;
- understanding how the business continuity plan has been executed and the gaps identified;
- understanding proposed actions to deal with deficiencies in continuity plans taking into account the long-term impact of these decisions on the organisation and its significant stakeholders or
- understanding management's plans for communicating with all stakeholders and not just the providers of financial capital.

RE-ASSESSMENT OF SYSTEMS AND PROCESSES

The changing environment means that business will not continue as usual for the foreseeable future. Governing bodies should consider the impact of the changing environment on, for example, remote working arrangements, flexible staffing, changes in supply chains and the implications of dynamic market conditions on an organisation's risk assessment and strategic positioning.

MAINTAINING 'BALANCED AGILITY'

With a global market in turmoil, decisions have to be made quickly. However, the current crisis does not mean that governance processes can be abandoned in the name of efficiency and proactiveness. Well-governed companies will have frameworks in place which define expedited decision-making processes to balance good governance with the flexibility required to respond to crises. Given the unprecedented circumstances, governing bodies may need to meet more frequently and at shorter notice to provide the necessary strategic direction and ensure adequate monitoring of management activity.

SEEING THE OPPORTUNITY IN THE CRISIS

Successful businesses seize opportunities. COVID-19 poses many challenges but also provides opportunities for innovative organisations which can identify and manage the underlying risks. Conservatism and responsible risk management are not the same things. Refer to Section 4 for additional details.

GOVERNING FINANCIAL MATTERS

Organisations are facing financial pressures because of the cessation of manufacturing and trading and additional uncertainty in the decision-making process. Key areas for audit committees and governing bodies to consider include a review of capital allocation decisions and dividend policies.

Many entities would have made decisions relating to capital allocation to significant projects or acquisitions based on projections of growth and cost of financing, which are no longer appropriate. The governing body may need to review management's assessment of the viability of these projects. The governing body may need to consider temporarily revising spending limits and authorisation levels to ensure cash preservation. Access to cash flow forecasts and management's business plans will be essential to conserve cash in the short-and medium-term. Dividend policies may also need to be considered, including the duty of those charged with governance to balance investors' expectations with the long-term sustainability of their organisations. A careful assessment of statutory, contractual and governance-related restrictions on dividend declarations should be undertaken before a board of directors approves any dividend resolutions.

EXECUTIVE REMUNERATION

Black Sun has performed some research on the FTSE 100 companies for March 2020 year ends. Two interesting findings related to COVID-19 are reported. First, only one company mentioned how COVID-19 might impact executive remuneration in the following financial year. Second, the going concern implications and, associated closely with this, the ability of organisations to compensate their employees was seldom discussed.

The local media has reported how many senior executives at South African companies will be taking cuts in their remuneration in support of the COVID-19 relief effort. In a country plagued by income inequality even before the lockdown, boards of directors will come under increased scrutiny for remuneration policies and practices. These need to be guided by a collective approach to avoiding job losses and preserving incomes, especially for the most vulnerable employees.

CONTINUED ENGAGEMENT WITH STAKEHOLDERS

The African proverb reminds us that, 'if you want to go fast, go alone; if you want to go far, go together'. In the context of ongoing uncertainty, collective engagement is more likely to yield better longer-term results. Organisations are part of society, and the decisions taken by governing bodies must be informed by short-term financial impacts and the longer-term implications for sustainable value creation in the interest of a broader range of stakeholders.

2.2: What JSE-listed companies are reporting on COVID-19

SENS[4] announcements provide a sense of the issues which companies have been managing and reporting to market participants. While this does not provide a complete account of the corporate response to COVID-19, the SENS announcements provide some evidence of how the pandemic is affecting governance practices pending the completion of more robust studies by the academic community.

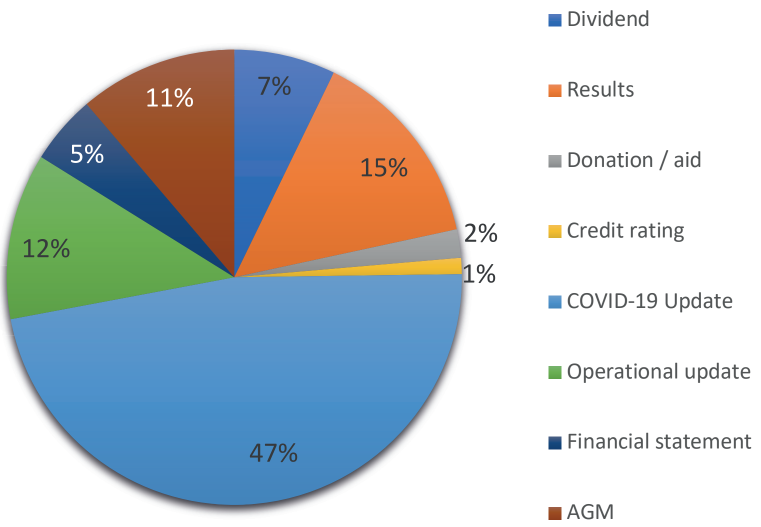
Since the start of the lockdown, there have been 646 SENS announcements of which 32%[5] have referred to COVID-19. The first announcement dealing with the virus was made by Gemfields Group Limited and informed the market that some key customers did not attend an auction held on 24 February 2020. At the time of writing this report, 313 announcements referring to COVID-19 were made by 165 companies.

The 'COVID-19 announcements' include information on various issues such as dividends, annual general meeting updates, operational updates, financial implications and postponing the publication of financial statements[6]. Figure 2 provides a breakdown of the content included in the announcements.

The majority (47%) of the announcements included an update on the respective entity and the effect of COVID-19 on one or more aspects of its business. Just under 38%[7] dealt directly or indirectly with the Companies Act (2008). More information regarding the content of the SENS is provided below.

[4]The JSE offers a service that provides the user with access to company announcements which have a direct impact on the movement in the market referred to as Stock Exchange News Service (SENS).

Figure 2: Review of the content included in COVID-19 announcements



COVID-19 Updates

In total, 116 of the 165 companies included a brief explanation of the lockdown and how they are responding. Examples included ceasing of operations, implementing more stringent hygiene protocols and statements on the possible financial impact, usually with references to cashflows.

Financial statement announcements

The Financial Services Conduct Authority (FSCA) issued two notices on 3 April and 24 March 2020 detailing an extension of dates to submit financials for issuers with year-ends 31 December 2019, 31 January 2020, 29 February 2020 and 31 March 2020 [11, 12]. Sixteen companies have taken advantage of the extension. The ongoing lockdown has raised concerns about the accuracy of companies' forecasts, the appropriateness of their strategies and, ultimately, their ability to continue as a going concern [12, 13]. These need to be addressed and included in corporate reports of companies [14].

Annual general meeting

Thirty-three companies have provided communication regarding their annual general meetings (AGMs). The communications range from declaring an AGM date after the proposed lockdown has been lifted to hosting the AGM electronically. Many companies have provided information regarding proxies for voting and procedure for logging into virtual meetings. Some companies are proceeding to host an AGM with the minimum quorum of two members. In this case, companies are suggesting voting by proxy with questions sent via e-mail before the AGM.

The JSE has identified the importance of engagement and has been proactive in finding a solution. On 30 March 2020, the JSE partnered with The Meeting Specialist to launch the first virtual AGM[8] in South Africa. This initiative is intended to enable clients to engage with shareholders while the country is faced with tackling the COVID-19 pandemic [15].

[5]This is the number of SENS announcements between 26 March 2020 to 16 April 2020. When the data was collected. Of the 646 SENS announcement 209 include the word 'COVID' in them.
[6]Each announcement was read and coded according to the underlying information. If the statement was an update on the effect of COVID-19 to the entity it was coded as 'COVID-19 update'. Otherwise, it was coded as one of the other applicable codes. If there were more than one code it was appropriately coded as both.
[7]The 38% is the addition of the following items: 5% Financial statement; 11% AGM;7% Dividend and 15% Results.

Dividends
With dividends having a large impact on cash flow and share price [16, 17] changes to dividends attract significant attention from investors. The South African Reserve Bank Prudential Authority has recommended that South African banks defer dividend payments [13] although most have paid dividends declared before the lockdown.
Outside of the banking sector, 24 companies have deferred dividends in their COVID-19 announcements. Several of the 24 companies have withdrawn the dividend guidance previously communicated while ten companies have postponed payment of their dividend. In addition, some companies have offered a scrip dividend and one company withdrew their original dividend declaration on 2 March 2020.

Other
The remaining announcements (30%) deal with financial results (15%), operational updates (12%), donations or aid (2%) and credit ratings (1%). While these announcements refer to COVID-19, they do not deal specifically or exclusively with how the pandemic has affected organisations. These announcements include trading updates and the release of interim and final financial results.

2.3: Summary

The extended lockdown period will amplify the effects of an already weak South African economy. In times of economic, political and social uncertainty, it is essential for those charged with governance to play an active strategic and monitoring role. To demonstrate ethical and effective leadership, boards of directors must deal with the strategic and operational impacts of COVID-19. Risk assessment, strategies, financial management and stakeholder engagement are just some of the issues which will need to be carefully considered to ensure that organisations can continue to operate as going concerns [9].

For listed companies, in particular, clear and transparent reporting is especially important. It is too early to determine how COVID-19 is impacting financial statements and integrated reports, but a review of SENS announcements from 24 February 2020 to 16 April 2020 provides some insights.
Ceasing operations of non-essential services, making donations and providing aid to employees are examples of the issues which companies are communicating to the capital market. Arranging to have electronic AGMs, revising financial statement disclosure periods and disclosing operational details on SENS provides, at least, some evidence that South African listed companies are responding thoughtfully to COVID-19 and reporting transparently on its implications. Additional research will be required over the coming months to support more definitive conclusions.

[8]Per South Africa's Companies' Act (2008), AGMs must be convened no more than 18 months after a company's date of incorporation and, thereafter, once in every calendar year, provided that they are not held more than 15 months apart. Should companies find themselves exceeding the 15-month threshold or not wanting to delay the AGM they can do so electronically. Both the Companies Act and the JSE allow for the participation in meetings through electronic communication but a company's ability to make such decisions (through electronic communication) is sometimes restricted by its memorandum of incorporation.

3: FINANCIAL REPORTING, AUDITING AND TAX

As part of their broader duties, King IV requires those charged with governance to play a proactive role in promoting higher quality reporting to stakeholders and ensuring compliance with applicable laws and regulations. We focus on three critical aspects of these duties, including:

- the financial reporting implications of COVID-19;
- a review of how the pandemic has impacted the audit of financial statements and

a brief discussion of some of the tax relief provided for organisations and their employees.

3.1: How will COVID-19 impact financial statements?

While the JSE and CIPC have extended deadlines for lodging financial statements, the financial reporting implications of the pandemic remain relevant. Some of these are dealt with under three broad headings: (1) presentation, (2) impairment and related concerns and (3) additional considerations.

PRESENTATION

In times of uncertainty, clear communication with users is paramount. The following are examples of presentation and disclosure considerations in the context of the COVID-19 pandemic:

Many companies already struggle with disclosure of significant judgements and estimates, as highlighted by the JSE's proactive monitoring process [18]. Considering the impairment concerns associated with COVID-19, special attention should be paid to these disclosures.

Current/non-current classifications will need careful consideration, especially if loan covenants have been affected. Breaching one loan covenant may have knock-on effects for other financing arrangements. Importantly, any covenants re-negotiated after year-end may not be considered in year-end current/non-current classifications (IAS 10).

Given market volatility and abnormal trading, the appropriateness of fair value measures will need to be reviewed. Quoted prices may no longer be Level 1 fair values resulting in additional presentation and disclosure requirements in IFRS 13 and IAS 1 (especially those dealing with significant judgements and estimates) being triggered.

Caution must be exercised when reporting different performance metrics. It is tempting to report 'Earnings Before Interest, Tax, Depreciation, Amortization and COVID-19' (EBITDAC) to users. Adjustments for abnormal events are not permitted by IFRS. The financial consequences of COVID-19 can be highlighted in the notes to financial statements. It would be unusual for the face of the financial statements to be materially altered. 'Adjusted' earnings should be reported with caution. The prior research suggests that some JSE-listed companies are already using non-standard performance measures to manage impressions [19]. Also, where different performance measures are reported on a per-share basis, these may need to be reconciled to earnings per share (determined using IAS 33) and headline earnings (SAICA Circular 1/2019).

Deterioration in a company's financial position and performance may impact the going concern assumption with financial reporting implications. Material uncertainty concerning an entity's ability to continue as a going concern must be disclosed. Where an entity is dependent on third parties to continue its operations, their financial viability must be included in the entity's assessment of its ability to continue as a going concern[9]. In the unfortunate case where management concludes that their organisation is not a going concern, this - and how the entity's financial statements have been prepared - must be disclosed together with the reasons for management's conclusion. The going concern assessment must include all facts and circumstances up to the date when the financials are authorized for issue and not only those which existed at year-end. Additional reporting requirements for multi-nationals subject to foreign laws and regulations must also be considered.

Finally, we encourage the use of IFRS Practice Statement 1 on Management Commentary to communicate a company's strategy, estimates and judgements when preparing their financial statements. Key matters arising during the preparation could form part of this narrative and should discuss both positive and negative facts and circumstances. The effectiveness of an organisation's strategy can be reported and linked clearly to the relevant parts of the financial statements. This is especially important when management wish to communicate how resources and claims against those resources are expected to affect the entity's financial position, performance and cash flows.

Only material information should be considered. Critical aspects management may wish to focus on include, *inter alia,* results and prospects, performance measurement indicators, principal risks and responses and essential resources and relationships. Each of these can be tailored to deal with the impact of COVID-19. While management should avoid making predictions, additional disclosure must include forward-looking information. Where commentary was provided in prior periods, the current period's discussion and analysis should include appropriate comparisons and cross-references.

IMPAIRMENT AND RELATED CONSIDERATIONS

Examples of issues which should be evaluated by preparers and those charged with an organisation's governance are summarised in Table 2.

Table 2: Impairment considerations	
Inventory	• Inventory must be written down to the lower of net realizable value (NRV). • Where standard costing is adopted, management needs to assess whether standards may only be temporarily affected by COVID-19 or if effects are long-term. • The enforceability of any sales contracts will need to be assessed when determining NRV. Similarly, depressed market prices in the aftermath of the lockdown will result in lower NRVs.
Non-financial assets	• Judgement is required in assessing whether additional costs incurred due to COVID-19 to get PPE to the location and condition intended by management may be capitalized. Relocation and facility-sustaining costs associated with under-utilised capacity cannot. • IAS 23 requires the suspension of interest capitalization when construction is suspended for extended periods, such as may be the case during the lockdown. This assessment will require judgement and should be included in an entity's significant judgements and estimates. Where payment holidays are arranged, the impact on the borrowing costs must be calculated. • Deprecation may not be suspended due to the lockdown unless using a units-of-production method. If assets are idle for a significant period, their residual values and useful lives must be re-evaluated. • For entities that prepare interim reports, a reminder that any goodwill impairments processed cannot be reversed should the impairment conditions reverse by year-end.

[9]This may be the case where an entity's sole operation is executed via a joint operation where liquidation of the joint operator would prevent the business from continuing.

Table 2: Impairment considerations	
Provisions and guarantees	• Entities should consider whether contracts, including leases, have become onerous. Where contracts have dedicated assets, those assets should be impaired before Recognising an onerous contract provision. • Provisions for penalties due to a breach of contract must be accounted for. A lockdown may not necessarily extinguish an organisation's obligations to a counterparty. Legal advice should be obtained where required. • The general requirements for retrenchments and restructurings in IAS 37 will probably be applicable for many organisations after the lockdown. Future operating losses may not be recognised • Contracts providing for joint- and several liabilities or financial guarantees should be evaluated to determine if, and at what amounts, should be raised in the statement of financial position. • Where holding companies or fellow subsidiaries subordinate their debt and/or issue letters of support, the ability of these entities to do so must be considered. The group's cumulative exposure to third parties must be determined to ensure that the liabilities recorded in the consolidated statement of financial position are accurate and complete. • If recognised, provisions and financial liabilities may impact other impairment considerations such as loan covenants. This fact emphasizes that impairment, provisions, and loan covenants need to be evaluated simultaneously. • Contingent assets, such as business interruption claims, may only be recognised when the associated benefits are virtually certain. This high recognition threshold will likely result in timing differences between when expenses and associated incomes are recognised.
Financial instruments	• Entities should not assume historical information is sufficient to estimate expected credit losses (ECL); forward-looking expectations are crucial. • The IASB notes that entities should continue with their standard ECL methodology. For example, granting of payment holidays to broad classes of borrowers does not automatically trigger a significant increase in credit risk (SICR) as it is not the result of changes to identified borrowers. Moreover, when determining whether there has been a SICR, the entire life of the instrument must be considered. This assessment should include past information and forecasts of the future economic conditions, including planned government support measures. Long- vs short-term debtors should be considered separately as appropriate [20]. For more details, please visit *IFRS.org*. In terms of financial contract modifications, the European Securities and Market Authority (ESMA) issued a public statement. In this, they urge the exercise of judgement when determining whether contracts have been modified. In particular, only 'substantial' modifications may trigger modification accounting (derecognition of the original asset and the recognition of a new asset). Temporary relief measures that do not materially alter the economic value of the original instrument is unlikely to trigger a modification [21]. Please see *esma.europa.eu* for more details.
Dividends	• Many companies have announced changes to their dividend policies. Dividends, despite any past pattern, are not obligations until declared by a board of directors[10]. • Due to the negative implications of COVID-19, suspension of dividends may be necessary or at least prudent (see Section 2).

[10]Or other body as required by an entity's memorandum of incorporation.
[11]This declaration over COVID-19 occurred on 30 January 2020.

ADDITIONAL CONSIDERATIONS

Additional accounting implications arising because of COVID-19 are summarised in Table 3.

Table 3: Impairment considerations	
Events after year-end	Distinguishing between adjusting and non-adjusting events after the end of the reporting period will be difficult. By 31 December 2019, the WHO had not declared an international public health emergency[12] , and no material steps had been taken by the world's leading economies, except for China. As a result, a company cannot conclude that the ramifications of South Africa's lockdown unfolding after the end of its reporting period are automatically adjusting events: • Developments resulting from the lockdown must be indicative of facts and circumstances which existed as at the end of a company's reporting period. • The objective of IAS 10 is to allow management to refine the accuracy of its estimates and not to incorporate hindsight in the financial reporting process. A notable exception to these principles is where management concludes the entity is not a going concern after year-end. In this case, the financial statements should not be prepared using the going concern assumption.
Share-based payment transactions (SBPTs)	• Caution should be used when debating whether to cancel and issue new awards, or whether to modify existing SBPT. • Electing to cancel and issue fresh SBPT results in accelerated vesting with negative profit-or-loss consequences. • Carefully considered modified SBPTs only require the differential in net fair values to be accounted for, which may be more beneficial.
Revenue	• Management should consider whether any changes to revenue contracts should be accounted for as modifications or only affect the timing of the recognition of satisfied performance obligations (PO). • Companies are likely to take one of two routes. Companies may postpone goods/services and payment during the pandemic, essentially pushing out the contract end date. The scope and price of the contract are unchanged, and there is no material modification. • Companies may cancel the goods/services and payment during the lockdown. In this case, the original contract end date remains. In this case, while likely a modification, the accounting is expected to resemble the original accounting figures with added disclosure. • For contracts with variable consideration, COVID-19 may result in estimated future amounts being constrained. Practically, this will defer the recognition of revenue and may result in a significant reduction in the actual contract price. • Extension of payment terms may result in the actual or implicit inclusion of a financing arrangement, especially if the period is greater than 12 months.
Leases	Like IFRS 15, payment holidays or rent concessions may result in modifications. When making these assessments, a long-term view should be taken inclusive of applicable laws and regulations [22]. As there is a project underway to provide relief, we recommend monitoring IFRS.org. At the time of writing this document, the IASB had tentatively agreed to provide lessees with an optional exemption from assessing whether, and treating, rent concessions as a lease modification retrospectively with appropriate disclosure [23]. For lessors, operating lease modifications are accounted for as a new lease where any prepayments or accrued payments of the original lease form part of the new lease. Under finance leases, lessors should assess for modification and consider, as applicable, partial lease liability extinguishment if lessees have been legally released from their obligations to make specified payments. This matter is covered by IFRS 9 (see para 3.3.1). For more guidance, please visit IFRS.org.

3.2: Auditing under lockdown

Auditors and their clients are facing practical challenges in performing audits and preparing financial reports. The challenges faced by audit clients are illustrated in Figure 3:

Figure 3: Challenges faced by audit clients

Inability to provide the auditors with information

- This has been attributed to the limitations of information technology and communication environments at clients

Inability of audit clients to assess accurately the impact of COVID-19

- Clients are unsure about how to incorporate COVID-19 into going concern assessments and valuation models

Staff placed on mandatory leave

- Audit clients have placed some staff on mandatory leave resulting in slower financial reporting processes and difficulties encountered when trying to access staff

Access issues while client staff work at home

- Not all clients have accounting systems which allow for off-site access. Even when this is the case, it can be challenging for some employees to connect to these systems remotely

Inability to pay audit fees

- Clients have to pay creditors, employees and their vendors. They have also made payment arrangements with their auditors.

Some of the implications for the execution of audit engagements include the following:

- an overall increase in audit risk because of increased economic uncertainty and the temporary suspension of normal business processes or internal controls;
- inability to execute specific tests of controls or substantive tests, such as year-end verification of inventory and other assets;
- reduced professional scepticism because of a lack of direct engagement with an audit client's representatives and reliance on scanned, e-mailed or digitally shared source documents without verification of authenticity leading to undetected fraud or override of controls.

In response to the challenges mentioned above, audit firms have created COVID-19 response teams. Their duties include:

- experimenting with test cases to determine the efficiency and effectiveness of existing assurance practices for 'remote audits';
- developing firm-wide policies for dealing with an extended lockdown;
- tailoring communication protocols with clients to prepare for a remote audit;
- developing training material for team members required to execute a remote audit and
- monitoring the quality of remote audits, including the application of International Auditing Standards.

(see Financial Reporting Council [25], IRBA [26])

Response teams have issued guidelines on adapting audit plans outlining the type of risk assessments procedures which can be performed, how materiality assessments will be impacted by lockdowns and incorporating more data analytics and system-based testing in response to audit risks. To ensure that all testing performed during lockdown is sufficient and appropriate, staff are being required to complete surveys on the resources available at their private residences. Support is also being provided as necessary to ensure that audit teams can work effectively from their homes.

Junior members of audit teams will not have the same level of access to seniors, managers and partners as would be the case if audits are conducted at a client's premises. Different online platforms are being used to ensure that they receive the necessary direction and supervision. Works schedules have become more detailed, and the time taken to complete different tasks is being carefully tracked to ensure accuracy and efficiency. Audit partners and managers are encouraged to communicate regularly with their audit teams and ensure that emerging issues are quickly identified and appropriately addressed. These interactions should be documented in terms of ISA 230 to demonstrate how supervision, consultation and review is taking place during the lockdown [27, 28].

While COVID-19 has disrupted engagements running over the lockdown, it has also resulted in several creative solutions for collecting audit evidence. These are summarised in Figure 4.

Figure 4: Examples of testing innovations

- Where practical, inventory counts are being conducted using drones or by arranging for security personnel to live stream the inspection of stock room locations.
- Automated systems at audit firms and clients are being used to collect and request data with limited human intervention.
- Rather than wait for one auditor to complete a given task before the work is reviewed, dual access to working papers by other team members allowing working papers to be completed and reviewed simultaneously using a type of 'just-in-time' logic.
- With potentially sensitive information being transmitted on different platforms, including online conferencing, audit firms are developing more robust encryption tools to ensure confidentiality.
- While not common, some audit teams are experimenting with developmental software used to monitor student's attention spans during face-to-face lectures. The software is used to alert individual auditors when to take short breaks as they become fatigued.

Those charged with an organisation's governance accept ultimate responsibility for the integrity of its financial statements and related controls. Per King IV, audit committees should be engaging with their auditors to ensure that any changes to audit plans, materiality levels and testing processes are appropriate in the context of the COVID-19 lockdown.

3.3: Tax relief for COVID-19

The South African Finance Minister, Tito Mboweni, announced on 14 April 2020 that a 'deep recession' is expected as a direct result of the lockdown. In response, National Treasury proposed several tax relief measures outlined in the draft Disaster Management Tax Relief Bill and the Disaster Management Tax Relief Administration Bill. These Bills have been subsequently supplemented by further tax relief measures announced on 21 April 2020. Both Bills were out for public comment at the time of writing this report and deal with three broad areas relating to income tax:

- expansion of the Employment Tax Incentive (ETI);
- deferral of employees' tax and
- deferral of provisional tax.

To qualify for the employees' tax and provisional tax relief, taxpayers must be fully compliant with all registration, tax return filing and tax payment requirements as applicable. The taxpayer must be carrying on a trade and earn less than ZAR 100 million gross income[12] for the year of assessment to which the applicable tax payment and relief measure relate. Lastly, the taxpayer's gross income must not consist of more than 10% of gross income in the form of dividends, interest, rental income from fixed property, foreign dividends and remuneration from an employer[13].

EXPANSION OF THE EMPLOYMENT TAX INCENTIVE (ETI)

The ETI was introduced to incentivise the employment of young South Africans by reducing the employees' tax paid over to SARS by the employer while not affecting an individual employee's wages. Effectively, the employer benefits from having the beneficial use of the employees' tax not paid over to SARS.

The ETI applies to qualifying employees[14] who are between the ages of 18 and 29 and who are paid at the minimum wage for that employer or in terms of the Minimum Wage Act (up to a maximum of ZAR 6 500 per month). Employer taxpayers must be registered with SARS as an employer to benefit from the ETI[15].

The expansion of the ETI is effective for a 4-month period: April, May, June and July 2020. The expansion involves raising the maximum relief for employees falling under the ETI from ZAR 1 000 to ZAR 1 750 for the first 12 months of employment and from ZAR 500 to ZAR 1 250 for the second 12 months of employment. For subsequent employment periods, relief is available, to a maximum of ZAR 750[16]. Qualifying employees between 30 and 65 years of age will also qualify for relief under the ETI to a maximum of ZAR 750.

[12]This was initially proposed to be set at an amount of R50 million.
[13]This precludes many salaried employees from benefitting from the relief measures discussed in this section of the report.
[14]Generally South African citizens, with other requirements specified by Treasury.

DEFERRAL OF EMPLOYEES' TAX

This relief applies to companies, trusts, partnerships or individuals who meet the requirements for relief as discussed earlier in this section.

A maximum of 35%[17] of employees' tax liability, which must be paid by the employer, can be deferred for the period 1 April 2020 to 31 July 2020. SARS will levy no penalties or interest on the amounts deferred. These amounts must be included in the employees' tax paid for the period beginning 7 September 2020 and ending 5 February 2021. In other words, the cash flow benefit over four months must be paid to SARS in 6 installments commencing 7 September 2020.

Table 4: Example

Payroll	Gross liability	35% deferral	65% payable	Due date of the 65%	Payroll	Amount payable	Due date
April	150 000	52 500	97 500	07 May	August	35 000	07 Sep
May	145 000	50 750	94 250	05 Jun	September	35 000	05 Oct
June	155 000	54 250	100 750	07 Jul	October	35 000	06 Nov
July	150 000	52 500	97 500	07 Aug	November	35 000	07 Dec
Cash flow benefit:			210 000		December	35 000	07 Jan
					January	35 000	05 Feb

(adapted from SARS [29])

An employer must still declare the full amount of employees' tax on its EMP 201. If the qualifying criteria are met, only 65% of the amount due is paid to SARS, as shown in Table 4. The deferral is not a waiver. The amounts deferred are still a liability to the employer, and this is a short-term liquidity buffer.

DEFERRAL OF PROVISIONAL TAX

This relief applies to companies, trusts, partnerships or individuals qualifying as discussed earlier in this section.

Generally, the first provisional payment is 50% of the total tax on the estimated taxable income, less other prepayments such as employees' tax. For the period 1 April 2020 to 30 September 2020, the first provisional tax payment is reduced to 15% of the total tax based on the estimated taxable income.

The second provisional tax payment is usually equal to the tax due on the estimated taxable income for the full tax year after deducting the prepayments, including the first provisional tax payment and employees' tax. For the period 1 April 2020 to 31 March 2021 the second provisional tax payment is reduced to 65% of the total tax on the estimated taxable income.

No penalties or interest will be levied by SARS on deferred amounts. Any amounts deferred must be paid to SARS in the third provisional tax payment which must be made within seven months after the end of a taxpayer's year of assessment (or six months if the taxpayers' year-end is not the end of February). Table 5 provides an example.

[15]In addition to compliance requirements in terms of sections 8 and 10(4) of the ETI Act.
[16]This was initially proposed to be set at R500.
[17]This was initially proposed to be set at 20%.

Table 5: Example		
		ZAR
Estimate taxable Income		10 000 000
Tax at 28%		2 800 000
First provisional tax period	(15%)	420 000
Second provisional tax Period#	(65%)	1 400 000
Third Provisional Tax Period	(35%)	980 000
#This is ZAR 1 820 000 less payment of ZAR 420 000 made for the first provisional tax period.		

Like the employees' tax concessions explained above, the provisional tax must still be declared in full. Qualifying taxpayers can then defer the payments of amounts due.

OTHER RELIEF MEASURES

Some of the other relief measures introduced include:

- Microbusinesses[18] can defer payments of turnover tax using the same percentages as for provisional tax.
- Individuals who have not yet registered for personal income tax can register via SARS' e-filing system.
- A four-month payment holiday has been introduced for Skills Development Levy contributions for the period 1 May 2020 to 31 August 2020.
- A 90-day deferral for excise duties on alcohol and tobacco products.
- A 3-month deferral for filing and the first payment of carbon tax.
- VAT vendors can use SARS' e-Filing system to obtain a VAT Notice of Registration.
- Binding General Ruling (VAT) 52 was also introduced, which deals with exported goods and the timing of resulting taxes.
- VAT refunds are being prioritised, with vendors being allowed to file VAT returns monthly instead of once every two months.
- The limit in terms of section 18A for donations made to the solidarity fund is increased from 10% to 20%, and an increased amount can be taken into account for employees' tax.

The above reflects the broad overview of certain aspects of the COVID-19 relief, and there are other, mainly tax administrative, changes which have not been covered. For further information and guidance, readers should consult their tax practitioners.

[18]In terms of the Sixth Schedule to the Income Tax Act.

4: AN INTEGRATED THINKING PERSPECTIVE ON COVID-19

Addressing the governance (Section 2), financial reporting (Section 3.1), auditing (Section 3.2) and tax (Section 3.3) implications of COVID-19 will be challenging. Those charged with an organisation's governance will need to take a holistic approach to disaster management, which is mindful of the need for sustainable value creation and the legitimate interests of a broad group of stakeholders. Drawing on the guidance provided by King IV and the International Integrated Reporting Council (IIRC), an 'integrated thinking' perspective on COVID-19 can be applied.

4.1: What is integrated thinking?

Organisations have started thinking differently about the resources they use and manage. Per the IIRC's Integrated Reporting Framework (Framework), companies should strive for multi-capital value-creation over the short-, medium- and long-term. This is known as integrated thinking [30, 31].

Recognising that integrated thinking is still in a developmental stage, the IIRC produced a report on 'Integrated Thinking and Strategy' which introduced an enhanced way of seeing the traditional business model which they refer to as a 'string model'. This describes a business model based on multiple inputs, outputs and impacts. When considering a business model from an integrated thinking perspective, the report indicates inputs, outputs and impacts should be evaluated holistically rather than in isolation. The IIRC describe this approach as a 'spring model' focused on optimising value creation for the organisation and its stakeholders over the short- and long-term. This is depicted in Figure 5.

Figure 5: String and spring models

(source IIRC [30])

4.2: Integrated thinking during the COVID-19 crisis

In a time of crisis, many boards of directors focus their efforts on immediate problems. It is important to consider the medium- and long-term effects of the pandemic on value preservation and creation. The goal is to balance 'company's performance across financial, social and relationship, human, intellectual, manufactured and natural capital' to create value for itself and others in the short-, medium- *and* long-term [30].

Boards should take the time to understand their organisations' critical dependencies considering the impacts across all the capitals and how all its stakeholders are affected. An important part of this is correctly and comprehensively assessing both risks and opportunities arising from COVID-19 (see also Section 2) and the resilience of mitigation and adaptation strategies [32, 33].

THE 'SILVER LINING' OF THE COVID-19 CRISIS

COVID-19 is elevating many of the issues identified in the UN's Sustainable Development Goals (SDG) [34] such as poverty and access to healthcare. This crisis is an opportunity to consider how COVID-19 recovery plans can be implemented to support a more environmentally and socially responsible transition from currently unsustainable business models. Two examples are provided below. South African data are not readily available, but the information reported by the USA and the UK can provide a sense of the changes which may be expected in a local context.

COVID-19's spotlight on sustainable investments

Investments in companies with a strong environmental, social and governance track-record have performed relatively well. Compared to their counterparts, HSBC found that the share prices of these 'ESG companies' outperformed those of their counterparts by up to 5.7% in the first quarter of 2020.

To be fair, investments in ESG companies have reported losses because of COVID-19 but these appear to be less extreme than for other equity investments. Morningstar's Head of Sustainability

Research explains as follows:

> 'companies truly focused on the wellbeing of their workers and customers are able to make the right decisions more quickly in a major crisis like this one' [35].

A multi-capital approach advocated by an integrated thinking philosophy contributes to sustainable value creation [35, 36], a position which is supported by preliminary (albeit pre-COVID-19) findings on the relationship between sustainability practices and different measures of financial performance in South Africa [37, 38].

Barclay's Global Head of Research outlined in a March 24 press statement how ESG analysis can aid the COVID-19 recovery effort on a broad basis and that one outcome of the ongoing lockdowns is a:

> 'greater sense of urgency and responsibility toward everything from consumer behaviour to climate change, supply-chain practices and the future of work and mobility – and potentially alter the nature of the investment process as a result' [36].

The International Corporate Governance Network (ICGN) has also weighed in on the crucial role which investors have to play during the COVID-19 crisis. Their viewpoint document emphasises one of the critical aspects of integrated thinking:

> 'Despite these negative economic events investors should avoid focusing on the crisis in terms of its short-term shareholder value implications. It is here where a long-term perspective, and perhaps a grounding [in] ethics and value more generally, should also guide investor responses' [39].

Although responses will differ for investors according to their mandates, the principle which both the ICGN and the UN Principles for Responsible Investment (UNPRI) encourage is an investment strategy which ‘promotes long-term investment horizons and sustainable value creation for individual companies and markets’ [39, 40].
The ICGN provides a useful set of questions which investors can use to evaluate a board’s response to dealing with crises, including COVID-19. Responses to these questions will provide a good sense of how well a company has applied an integrated thinking philosophy when dealing with the impact of the pandemic, including its consideration of the different capitals, stakeholders, risks and overall implications for value creation [39].

1. Does the board recognise its role and accountability to provide oversight to the company’s management of the COVID-19 crisis?
2. How is the board structured to address the crisis? Is there a clarity of roles and responsibilities?
3. How does the board get information about the crisis and demonstrate that it has an adequate and up-to-date understanding of the risk faced by the organisation?
4. Does the board have access to internal or external subject matter experts on COVID-19 to support decision making?
5. If a crisis management committee exists, how does the board allocate responsibilities to it and how does this committee interact with management and the board as a whole?
6. Scoping the problem: what are the key financial risks and pressures and how resilient is the company to confront adverse economic outcomes?
7. How is the board addressing the crisis and its impact on employees, customers, supply chains and local communities?
8. What critical financial and strategic decisions have to be made and in what time frame?
9. How will the company balance the interests of shareholders, stakeholders and the overall sustainability of the company itself?
10. What are the plans for business continuity?
11. How are communications managed internally and externally?
12. How will the company communicate the economic impacts and threats to the company’s financial sustainability and business model? [39].

Rethinking purpose and value

From an integrated thinking and reporting perspective, companies must have a clear purpose. This provides a framework for explaining how an organisation creates value and the development of an interconnected strategy, governance and operations [41].

A company’s purpose will be put to the test by stakeholders as it manages the COVID-19 crisis. Companies should be prepared to demonstrate how any decisions they have made in response to the crisis are grounded in a broader evaluation of value creation and long-term sustainability. Change will be inevitable [41, 42].

Business models will need to be refined and, in some cases, re-developed. It is essential for integrated thinking, guided by a company’s purpose and values, to drive these changes. As Allen, (from Bain & Company) puts it, ‘the companies that emerge stronger will be business builders’. A company which is a good business builder will understand that their customers’ needs are changing and will need to adapt their business models quickly to respond to these changes. The article closes off with an important message:

‘Instead of snapping back to the way you were, radically simplify what you do and how you do it and respond faster to your changing customers’ [32].

4.3: Integrated thinking to aid with COVID-19 recovery

Ultimately, integrated thinking and its underlying principles provide a useful approach to tackling the challenges faced by companies during and after the COVID-19 crisis. As Samantha Azzarello, Chief Strategist at JP Morgan, explains:

'From a moral and societal perspective, the coronavirus pandemic has highlighted to many people how we are all in this together…how companies are built to respond to the crisis and support customers, employees and communities at large are very front and centre right now' [35].

The rate of change will only be accelerated by COVID-19. For companies to be sustainable in the long term and optimize value creation, they will need to apply an integrated thinking mindset characterised by dynamic decision making and proactive stakeholder engagement. Business leaders will need to 'put their heads together and ensure their agility, capacity, technology and resilience to make decisions they can stand by' [33, 43]. Figure 6 summarises suggestions for boards of directors to consider to promote integrated thinking.

Figure 6: Suggestions for promoting integrated thinking

Remember to take a multi-capital perspective

- Shift from a heavy focus on short-term financial returns to optimizing value across multiple capitals

Consider the impact on stakeholders

- The immediate response to COVID-19 will affect an organisation's relationship with stakeholders with implications for future operations

Track performance across multiple indicators

- Develop an integrated dashboard which provides a view on performance gauged according to appropriate indicators and integrates financial and non-financial data

Actions speak louder than words

- Recognise the importance of individual leaders for advancing integrated thinking; CEOs and CFO must focus on doing rather than just talking

Embedding integrated thinking in organisations

- Embedding integrated thinking in strategy development, risk assessment and management of business processes
- All material decisions should be guided by the company's purpose and values

5: BIODIVERSITY AND THE SUSTAINABLE DEVELOPMENT GOALS

Research, both practitioner and academic, has demonstrated the need for corporate reporting to focus on sustainable development, addressing social, environmental and economic concerns together [44, 45]. As discussed in Section 4, integrated reporting and integrated thinking seek to embed social environmental and economic concerns within corporate strategy, materiality, risk management and internal control.

Among environmental issues, biodiversity enhancement, protection of natural capital, ecosystems, habitat and species protection are emerging as salient features of corporate reporting. The urgency for companies to accommodate these biodiversity-related issues has been highlighted by recent reports around the ongoing anthropogenic (human-caused) mass extinction of species. Indeed, a report produced by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)[19] estimated around one million species currently threatened with extinction. Further, the Sustainable Development Goals (SDGs) incorporate biodiversity protection through SDGs 14 and 15 for life in water, and on land, respectively. The SDGs have been mapped onto the three dimensions of integrated reporting as demonstrated in Figure 7[20].

Figure 7: Mapping SDGs onto the environmental dimension in integrated reports

Goal 13. Take urgent action to combat climate change and its impacts

- Climate change cannot be seen as a purely scientific issue. It has direct and indirect implications for strategies, risk assessments and business models.

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

- As explained by King-IV sustainable development goes hand-in-hand with integrated thinking and reporting.

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

- Ecosystems provide invaluable benefits to organisations and people, many of which cannot be replicated without great cost and effort. The economic case for protecting biodiversity is reinforced by a moral and social duty to protect the planet for future generations.

(adapted from King and Atkins [44])

[19]The IPBES is the intergovernmental body which assesses the state of biodiversity and of the ecosystem services it provides to society, in response to requests from decision makers.
[20]This mapping is adapted from King with Atkins (2016, p.62).

The current global pandemic has catapulted biodiversity, species and habitat protection into centre stage. The dangers posed by COVID-19 are exacerbated by habitat degradation and depletion (proximity of species to humans), wildlife trade and consumption of endangered species (bats, pangolin), and a cavalier attitude towards biodiversity and nature generally [46]

Biodiversity is not some obscure, intangible issue to be included somewhere in the depths of an integrated report because 'some stakeholders may want to see it'. Biodiversity and species extinction are critical, financially material risk factors that need to be integrated into the heart of any reporting framework and managed through companies' internal control systems. The value of ecosystem services (the 'services' provided by nature to humans) depends on the healthy balance of biodiversity and species protection. One only has to think of pollination to understand the importance of stemming global bee decline [47]. Indeed, IPBES [48] asserts that between USD235 billion and USD577 billion in annual global crop output is at risk from pollinator loss. Other species are equally crucial to the functioning of the economy and to human health, due to interrelationships and dependencies, but may not be immediately obvious [49].

The recognition that biodiversity and species extinction are financially material is not new but has been raised by the institutional investment community for some time. For example, in 2004, F&C Asset Management [50] explained that biodiversity was a business risk that required urgent management attention. A framework for the inclusion of biodiversity risk within a company's system of internal control, including disclosure of biodiversity risks and their management (published in 2014) is adapted below.

Figure 8: Biodiversity within a system of internal control and risk management

Company's internal control system: biodiversity management

Assume: underlying motivation for protecting biodiversity: risk management

↓

Biodiversity risk assessment

Surveys of biodiversity

Biodiversity risk assessment tools/methodologies

↓

Design of biodiversity risk management strategy

↓

Specific biodiversity initiatives

↙ ↓ ↘

Form partnerships with NGOs, other relevant organisations

Focus on protecting specific species

(IUCN Red List)

Assess biodiversity-related liability and costs

Assess the performance of biodiversity risk management

↙ ↘

Report on biodiversity risks and biodiversity risk management to stakeholders via sustainability report

Engage with stakeholders on biodiversity via sites visits/educational activities etc.

↑

Feedback from stakeholders

→ ←

Reporting on natural capital (of which biodiversity is a critical feature) is the focus of the Natural Capital Coalition and their recent report has emphasised the need for businesses to report and manage biodiversity [52]. Also, the new Biological Diversity Protocol (BDP) provides a detailed framework for companies to deal with, and report on, biodiversity.[21] In December 2019, the Climate Disclosure Standards Board (CDSB) initiated an open public consultation and call for evidence on advancing nature-related financial disclosures and use of the CDSB Framework. They are hosting a webinar at the end of April 2020 to discuss the results of the consultation and the future of natural capital accounting.[22] There have been concerns, however, in the academic literature that some biodiversity reporting frameworks fail to convey the urgency of biodiversity loss and species extinction [53-55][23].

Integrated reporting represents an ideal vehicle for discussing the importance of protecting biodiversity [44]. Auditing for biodiversity reporting and extinction accounting need to be developed urgently to provide assurance to investors on critically important corporate disclosures around biodiversity risk management. Evolving governance mechanisms can also assist in contributing to greater corporate effectiveness and transparency in biodiversity risk management and corporate accountability for biodiversity impacts. A Chief Value Officer (CVO), for example, plays a critical role in ensuring that natural capital inputs and outcomes are managed effectively and responsibly. As opposed to the traditional CFO, the CVO is a financial professional responsible for not only the financial statements, but the management of the six capitals and the relationship between a company and its stakeholders. In this context the financial professional is a value officer rather than a financial officer [44].

The role of a Chief Stakeholder Relations Officer (CSRO) also contributes significantly to biodiversity inclusion in internal control and risk management. Stakeholder engagement on biodiversity and ecological issues represents an important governance mechanism for enhancing corporate accountability in this area of growing importance. A CSRO's job is to communicate with stakeholders on an ongoing basis, learn of their legitimate and reasonable needs, interests and expectations, and feed this information to management [44]. Increasing further the transparency in governance with respect to ecological issues and related factors have led to proposals for an Ecological Engagement Officer, an Ecological Risk Assessment and Management Committee and an Ecological Value Officer. The presence of non-executive directors with specific experience in dealing with climate change risks and issues relating to biodiversity and ecological factors on a board and its committees will also be essential[24].

In summary, accounting frameworks and in particular integrated reporting, as part of the broader corporate governance framework, need to urgently incorporate biodiversity and species extinction. This is essential for enabling greater resilience to disruptions in business continuity as well as to protect businesses and society from further pandemics which, it is not overdramatic to say, may threaten the continuance of the human race.

[21]see The Biological Diversity Protocol (BD Protocol) (forthcoming). Endangered Wildlife Trust - Biodiversity Disclosure Project.
[22]Details at: https://www.cdsb.net/events/1028/consultation-results-advancing-nature-related-financial-disclosures-and-use-cdsb
[23]These concerns have led to the development of an extinction accounting framework
[24]See proposals for an extinction governance framework in Atkins, King and Maroun (forthcoming). Draft available on request from Professor Atkins (j.f.atkins@sheffield.ac.uk)

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