Key financial reporting considerations for going concern assessment under COVID-19 situation

This document has been prepared in continuation of the Institute's series of publications providing guidance on the financial reporting considerations under COVID-19 circumstances. The Institute's Technical Services team has prepared this publication in order to facilitate the members and preparers of the financial statements in the performance of going concern assessment under COVID-19 situation. The publication highlights key considerations under IAS 1 *Presentation of Financial Statements*. Further, the publication includes relevant extracts from the annual or interim reports of international companies as a guidance on going concern basis assessment and related disclosures.

The Institute has issued separate comprehensive publications on financial reporting and auditing considerations relating to going concern assumption in the preparation of financial statements which can be accessed on following links:

- Guideline on the basis of preparation of financial statements for companies that are not considered going concern (February 2017)
- Guide on auditor's responsibilities relating to going concern assumption in an audit of financial statements (July 2017)

Basis of preparation of financial statements

What are the requirements on basis of preparation for financial statements under IAS 1

The COVID-19 pandemic has resulted in a significant global economic recession with declining market performances and widespread business closures. A number of businesses across the globe have faced alarming decline in customer demand accompanied with unprecedented supply chain disruptions, resulting in liquidity issues and significant survival crisis.

Given the wide range impact of currently prevalent pandemic on the global economy, many entities will be subject to significant uncertainties regarding their ability to continue as a going concern. These material uncertainties will require the entities to critically access its ability to continue as a going concern. Moreover, this will also require auditors to consider it as a high risk area and to take in to consideration the potential impacts of COVID-19 on the company's ability to continue as a going concern.

While, the requirements of IAS 1 set a high threshold and significantly material conditions in order to qualify to depart from going concern basis, yet, the prevalent economic uncertainties pose a high risk of inapplicability of going concern assumption.

IAS 1 requires the management to evaluate the appropriateness of the use of going concern assumption for the preparation of financial statements at each balance sheet date. The said evaluation shall be made for a period of at least 12 months from the financial statements date.

IAS 1 requires the management to prepare the financial statements on a going concern basis unless there is an evidence to the contrary. For this assessment of going concern assumption, management shall evaluate whether there are conditions or events, considered in aggregate, that create uncertainty about company's ability to continue as going concern.

Key consideration:
Whether the financial statements shall be prepared on going concern basis or on non-going concern basis?

Under what circumstances a company should depart from going concern basis

IAS 1 has outlined following specific circumstances under which the management shall conclude to depart from going concern basis for the purpose of preparation of financial statements:

- Management's intention to liquidate the company;
- Management's intention to cease trading;
- No realistic alternative than to cease trading or liquidate, despite management's intention to carry on the business of company.

Financial statements preparation and disclosure requirements for going concern

Significant doubt on ability to continue as going concern exist but are alleviated by management plans	Significant doubt on ability to continue as going concern and are not alleviated by management plans
▪ Disclose material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern	▪ Disclose material uncertainties related to events or conditions that render going concern assumption invalid
▪ Prepare financial statements on going concern basis	▪ Prepare financial statements on an other than going concern basis of preparation

What are the examples of circumstances under COVID-19 situation that would require specific consideration for going concern assumption

Due to COVID-19, the world has faced severe lockdowns including travel bans. As a result, with an inability to generate revenue due to legal limitations, a number of airline companies are facing heavy losses, distressed cash position and unavailability of funds to continue operations or in some cases even to resume operations. In such a scenario, if the management concludes to liquidate the company in order to avoid further losses, then the company shall be required to prepare the financial statements on a non-going concern basis.

In the prevalent contracting economy, purchasing power of customers has significantly shrunk. Resultantly, a number of industries have suffered a set back in terms of customer demand. A company that has a structure of supplying food items to restaurants will face challenges in buying and selling of food items due to perishable nature of goods as well as due to no existing demand. In such a scenario, the management of the company might conclude to cease the buying and selling of its goods hence qualifying the company for non-going concern assumption.

In order to control the spread of corona virus, governments worldwide have imposed complete lockdowns where employees are made to work from home and unnecessary commute is restricted. As a result of which, use of commuting modes have faced a significant decline causing a severe dent to automotive industry. Hence, a number of transportation companies are facing existential crises and so have approached either their group companies or the respective governments for financial aid. Furthermore, some companies have also opted for alternative arrangements with their creditors. In such a scenario, if a transportation company does not have any such financial support nor has the opportunity for any alternate arrangement with its creditors and so does not have the ability to discharge its liabilities without filling for liquidation then the management has no other realistic alternative than to apply for liquidation.

How would the impacts of COVID-19 affect the management's assessment of going concern?

In this COVID-19 situation, management shall be required to critically analyze the changing environment and the resultant impacts on the operations of the company while evaluating going concern assumption. Some major questions that might require management attention include:

- How revenue streams have been impacted?
- How financing arrangements and credit profile have been impacted?
- How liquidity and working capital cycle has been impacted?
- How business customers have been impacted?
- How supply chain has been impacted?
- How business disruption has impacted legal and contractual obligations?
- How relevant industry/business sector has been impacted and how has it reacted?
- How management intends to answer the additional risks?

How should management cope up with the COVID-19 situation for performing going concern assessment ?

In order to evaluate the appropriateness of the use of going concern assumption for the purpose of preparation of financial statements, management might need to consider following action points:

- With the unexpected widespread of corona virus, the management should update its forecast, sensitivities and cash flow projections for the potential impacts of COVID–19. That is, it should build its projections on various potential non-favorable scenarios that might arise due to COVID–19. For example, the prevalent lockdown, economic recession and the resultant contraction of customer demand would require a revision not only for the sales projections but also account receivable recoverability assumption.
- Identify and ensure compliance with the changing legal and regulatory environment and assess the resultant impact on its future projections.
- Evaluate and conclude the possible plans for the mitigation of events leading to non-going concern assumption. For example, obtaining financial aid from Group company or announcement of any grant by respective government. Furthermore, management should ensure that its concluded plans are realistic as well as achievable within a definite time frame.

What are the disclosure requirements in relation to going concern assumption ?

IAS 1 sets forth no specific disclosure requirements where the management concludes the company to be a going concern.

However, where significant management judgements are involved in arriving at the going concern assumption then the said significant judgements shall be disclosed. Moreover, When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, the company shall disclose those uncertainties.

Where, management arrives at the conclusion to depart from the going concern basis then IAS 1 requires the following disclosures to be made in the financial statements prepared on non-going concern basis:

- That the financial statements are prepared using the non-going concern basis of accounting, including the facts and circumstances surrounding the adoption of the non-going concern basis of accounting.
- The basis of preparation used, including methods and significant assumptions used to measure assets and liabilities, including any subsequent changes to those methods and assumptions.
- Should present an analysis of any upside not recognized in the profit or loss on assets during the period.
- Should also present an analysis of any items (such as trademark) that are not recognized in balance sheet during the period using a classification based on either their nature or their function within the company, whichever provides information that is reliable and more relevant.

Whether management should consider subsequent events while evaluating going concern assumption?

IAS 10 *Events after the reporting period*, requires the management to take in to account all events and conditions that are reasonably known till the date of authorisation of financial statements while performing the going concern assessment. Hence, any significant changes resulted due to COVID-19 after the reporting date but prior the issue of financial statements shall be considered while evaluating the company's ability to continue as going concern.

Extracts of annual report of international companies

Marks & Spencer Group Plc
Audited Consolidated Financial Statements
For the year ended 28 March 2020

Accounting Policies – Basis of Preparation (Note 1)

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 from the requirement to prepare and deliver financial statements in accordance with the Companies Act.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 2 to 26, and the principal risks and uncertainties as set out on pages 34 and 43, including by modelling a COVID-19 scenario.

Given the global political and economic uncertainty resulting from the COVID-19 pandemic, coupled with the already fast paced changes taking place across the retail sector, we expect to see significant volatility and business disruption reducing our expected performance in 2020/21. We have already felt the impact of the government's guidelines on lockdown, with our Food stores open and trading (albeit with social-distancing rules in place), but with Clothing & Home unable to trade from stores, and all sales therefore predominantly coming from online sales and Click & Collect in stores.

The COVID-19 scenario assumes that the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21 as follows:

- On average, a 70% decline in Clothing & Home sales vs budget for the four months to July 2020, followed by a slow recovery back to budget by February 2021, reducing expected revenue by £1.5bn for the financial year.
- A 20% decline in Food sales vs budget for the four months to July, impacting annual revenue by £384m.
- International sales following a similar profile to Clothing & Home, with a significant decline in April due to closures, and a recovery back to budget extended to March 2021, impacting annual revenue by £214m.

Further downside sensitivities which extend the length of the social-distancing measures or increase the depth of the impact on sales and margin were also considered, as explained in the Viability Statement. In addition, reverse stress testing has also been applied to the model, which represents a significant decline in sales compared to the COVID-19 scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

The COVID-19 scenario reflects the actions already taken by management, including:

- Cost-saving initiatives, such as reducing marketing spend, freezing pay and recruitment, and technology and operating expenditure cuts.
- Reducing the capital expenditure budget to c.£140m.
- Reducing the supply pipeline of Clothing & Home stock by c.£560m, and lengthening payment terms.
- Ceasing to pay the final dividend payment for 2019/20 and for 2020/21, resulting in a total anticipated cash saving of c.£340m.

The Group will also benefit from c.£172m of business rates relief in 2020/21 and the government's job retention scheme to help meet the cost of furloughed roles in stores, distribution and support centres, which should generate cash savings of c.£50m up to 30 June 2020.

In addition, the following further steps have also been taken:

- Formal agreement has been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- The Group confirmed on 23 April 2020 its eligibility under the UK government's COVID Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m, providing significant further liquidity headroom.

The agreement with the banks combined with the other measures taken means that, even under the COVID-19 scenario, the business would continue to have significant liquidity headroom on its existing facilities and against the revolving credit facility financial covenant. As at 28 March 2020 the financial covenant was met.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

Extracts of auditor's report of international companies

Marks & Spencer Group Plc
Independent Auditor's Report
on the Financial Statements for the year ended 28 March 2020

KEY AUDIT MATTERS CONTINUED

5.8 THE GOING CONCERN BASIS OF ACCOUNTING

KEY AUDIT MATTER DESCRIPTION

In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Group and associated debt covenants, including the covenant waiver that the Group has obtained in relation to its financing facility, and cost saving actions that the Group may take in responding to the Covid-19 pandemic including certain Government support schemes (including the furlough scheme and business rates holidays). The Group has applied for the Bank of England's Covid Corporate Financing Facility ('CCFF') with an issuer limit of £300.0 million which was confirmed as successful on 23 April 2020, however the Directors have not relied on the CCFF as part of their assessment of going concern. The Directors have also determined appropriate sensitivities to these forecasts, including a reverse-stress test of the Group's liquidity, and considered the results in forming their conclusion.

Due to the on-going Covid-19 pandemic, which has led to the mandatory closure of non-key retail outlets in the Group's key market, the UK, there is significantly more judgement applied in developing cash flow forecasts including assumptions relating to the period of closure for retailers, the impact on the Group's sales and the anticipated cost savings throughout the going concern period.

Taking into account the sensitivities, the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

We have identified a key audit matter related to going concern as a result of the judgement required to conclude there is not a material uncertainty related to going concern.

Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on pages 42-43 and 96 and in note 1 to the financial statements.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls over management's going concern models, including the review of the inputs and assumptions used in those models;
- obtained management's board approved three year cash flow forecasts and covenant compliance forecasts, including the impact of Covid-19 and the reverse stress test;
- involved our internal specialists in our assessment of the appropriateness of forecast assumptions by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions;
  - comparing forecast sales with recent historical financial information to consider accuracy of forecasting;
  - enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Company's control;
  - testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;
  - reviewing correspondence confirming UK Government support such as indirect tax holidays and staff furlough;
  - reviewing correspondence relating to the availability of the Group's financing arrangements, including the covenant waivers obtained by the Group in relation to its financing facility and the availability of CCFF funding;
  - understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and
  - considering the results of the reverse stress tests performed; and
- evaluating the Group's disclosures on going concern against the requirements of IAS 1.

Key observations

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and Parent Company's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

Extracts of annual report of international companies

Singapore Airlines
Audited Financial Statements
For the year ended 31 March 2020

Accounting Policies – Basis of Preparation (Note 2a)

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)") and International Financial Reporting Standards ("IFRS"). The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Singapore Dollars ("SGD"), which is the Company's functional currency and all values in the tables are rounded to the nearest million, unless otherwise stated.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group and the Company will be able to meet its liabilities as and when they fall due. The Group has generated a loss before taxation of $220.2 million (FY2018/19: profit before taxation of $868.6 million) during the year ended 31 March 2020 and as of that date, the Group and the Company's net current liabilities were $6,159.2 million (2019: $1,878.7 million) and $6,442.6 million (2019: $2,405.8 million) respectively. The Group has announced on 26 March 2020 that it is actively taking steps to build up its liquidity through a rights issue of ordinary shares and mandatory convertible bonds, together with other measures detailed in note 45, to enable the Group and the Company to continue its operations as a going concern and to meet its liabilities as and when they fall due.

Subsequent Events (Note 45)

The unprecedented and rapid spread of the Covid-19 pandemic, which resulted in global travel restrictions and border controls in many major markets, have led to a collapse in travel demand. The Group, which operates an international network, has been hard hit by these measures. In response to these global border closures and international travel bans imposed by key markets, the Company and SilkAir have announced the cutting of 96% of the cumulative capacity that had been originally scheduled up to end-June 2020. The Group's low-cost carrier Scoot will also suspend most of its network, resulting in the grounding of 47 of its fleet of 49 aircraft. As a result, the Group's passenger revenues have significantly declined and financial position have been adversely affected. The Group expects 2020 to be an extremely challenging year. At the date of this report, it is uncertain when the Group is able to resume normal services, given its dependency on when stringent border controls will be lifted. While the impact on the Group's business will be severe in the immediate future, the Group intends to continue operating in the long term and has actively taken measures to build up its liquidity to meet its near-term cash needs. As at 31 March 2020, the Group has various facilities at its disposal as detailed in note 41(e). In addition, further measures being undertaken include ongoing discussions with aircraft manufacturers to defer upcoming aircraft deliveries and reschedule aircraft pre-delivery payments, salary cuts for the Group's employees, the completion of both secured and unsecured credit facilities, of which, $761.4 million has been drawn down to date, the arrangement of a $4 billion bridge loan facility, and a rights issue of ordinary shares and mandatory convertible bonds. The proposed rights issue of ordinary shares and 10-year mandatory convertible bonds announced on 26 March 2020 has been approved by shareholders at the Extraordinary General Meeting ("EGM") held on 30 April 2020. The last trading day of the nil-paid rights and closing date for the rights issue are on 21 May 2020 and 28 May 2020 respectively, with the announcement of the final outcome of the rights issue scheduled on or around 3 June 2020. This rights issue of ordinary shares and mandatory convertible bonds will raise gross proceeds of approximately $8.8 billion and will be classified as equity. The approval given by the shareholders at the EGM also allows the Company to further issue $6.2 billion of additional mandatory convertible bonds. The funding of up to $15 billion is expected to enable the Group to meet its ongoing financial commitments and weather the challenges posed by the Covid-19 pandemic.

Extracts of annual report of international companies

Emirates
Audited Consolidated Financial Statements
For the year ended 31 March 2020

Accounting Policies – Basis of Preparation (Note 2)

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except for those financial assets and financial liabilities (including derivative instruments) that are measured at fair value, as stated in the accounting policies.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections being recorded globally. Measures taken to contain and slow the spread of the virus have significantly impacted global economic activity including limiting movements of people and restricting flights. The worldwide aviation market has been significantly disrupted in the short term. This disruption is expected to be followed by a gradual recovery as travel restrictions are lifted.

As a global network airline, Emirates has been unable to viably operate its normal full passenger services and Emirates' revenue will therefore be negatively impacted as a result of the outbreak, although the full impact and the time period of the disruption is not possible to predict with certainty

Emirates entered this crisis in a strong position, having previously reported profits for the past 32 years and available cash assets of AED 20.2 billion as at 31 March 2020. Emirates has taken various measures to manage the business through this crisis, including compensating cost saving measures, reductions to discretionary capital expenditure and agreeing additional working capital facilities. These measures also include obtaining committed support from the Government of Dubai which has publicly confirmed that they will financially support Emirates during this period through a variety of measures including an additional equity injection, if required.

Based on this statement of support and other measures Emirates has taken, management has prepared these consolidated financial statements on a going concern basis.

Extracts of annual report of international companies

Whitbread PLC
Audited Consolidated Financial Statements
For the year ended 27 February 2020

Accounting Policies – Basis of Accounting Preparation (Note 2)

The Group's and Company's (the "Group") business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 30 to 37. The principal risks of the Group are set out on pages 55 to 57. In addition, Note 24 includes the Group's financial risk management objectives, details of its financial instruments and hedging activities, its exposure to liquidity risk and details of its capital structure. The directors have considered these areas alongside the principal risks and how they may impact going concern. In considering these areas, the directors have concluded that it is appropriate for the consolidated financial statements to be prepared on the going concern basis. This assessment is considered to be a critical accounting judgement as set out below.

On reaching the conclusion on the Going Concern assessment, in line with the information set out above, the Directors have specifically considered the following:

- At 27 February 2020 the Group had immediately available cash and facilities due to mature in more than one year of £1,683.0m for consideration in the going concern assessment.

- From 21 March 2020 the Group closed all of its restaurants and from 24 March 2020 the majority of its hotels following government instruction aimed at containing the spread of COVID-19, with 39 Premier Inn hotels in the UK remaining open specifically to provide accommodation for NHS staff and other front-line key workers.

The impact of the COVID-19 pandemic and the measures put in place to control the virus spreading, have created a number of uncertainties for the Group at the time of signing the financial statements.

The current circumstances are exceptional and the Board expects social distancing restrictions to impact the Group's operations in the United Kingdom and in Germany for some time. UK Government guidelines published on 11 May 2020 indicate that businesses in the hospitality sector (such as food service providers, pubs and accommodation) will re-open as part of the third step of the UK Government's COVID-19 recovery strategy. At the time of publishing its guidance, the UK Government's assumptions were that this step will be reached no earlier than 4 July 2020.

The Group is ready to open its businesses in the United Kingdom when the UK Government advises; the Group's internal scenarios to assess going concern, including downside scenarios, assume its hotels and restaurants in the United Kingdom to remain closed or operating at low occupancy levels until September 2020. The majority of the Group's German hotels re-opened on 11 May 2020. Thereafter, the Group is prudently planning for a gradual recovery scenario through next year in which trading conditions begin to normalise, while allowing for the potential risk of further outbreaks of COVID-19 later in the year as restrictions are relaxed.

Given the uncertainty regarding the duration, extent and ultimate impact of the COVID-19 pandemic, the Group cannot estimate with any precision the impact on its prospective financial performance. The COVID-19 pandemic is expected to result in a material loss of revenue for the financial year ending 25 February 2021. Despite the actions the Group is taking, this is likely, given the Group's high fixed and semi-variable costs, to have a material impact on earnings which may result in the Group not making any profit during the financial year ending 25 February 2021, with the clear possibility that it is materially loss-making during that period.

As a result of the uncertainties surrounding the forecasts due to the COVID-19 pandemic, the Group has also modelled a reverse stress test scenario which shows that the Group has enough liquidity (when taking into account the proceeds of the Rights Issue as discussed below) to continue to meet its obligations as they become due, for at least 12 months if the sites were not to re-open during that period.

The Group has outlined further details on the risks associated with COVID-19 in the principal risks and uncertainties section on pages 55 to 56. As a result, it is taking significant steps outlined below to address the potential impacts of the closures.

Extracts of annual report of international companies

Whitbread PLC
Independent Auditor's Report
on the Financial Statements for the year ended 27 February 2020

Key Audit Matter

5.1 Going concern

Key audit matter description	As stated in Note 2 to the financial statements, the Directors' Report on page 107 and the Audit Committee report on page 71, the consolidated financial statements have been prepared on the going concern basis. The Board of Directors has concluded that there are no material uncertainties which may cast significant doubt over the Group's and Company's ability to continue as a going concern for at least twelve months from the date of approval of the financial statements. At 27 February 2020 the Group had cash and cash equivalents of £502.6 million and committed facilities of £1,759.0 million, of which £825.5 million had been drawn down. These facilities, alongside the Pension scheme, contain covenants which require the Group to maintain specific financial ratios and comply with certain other financial covenants. From 21 March the Group closed all of its restaurants and from 24 March the majority of its hotels following government instruction aimed at containing the spread of COVID-19, with 39 Premier Inn hotels in the UK remaining open specifically to provide accommodation for NHS staff and other front-line key workers. The impact of the COVID-19 pandemic and the measures put in place to control the virus spreading, have created a number of events and conditions which may have indicated a material uncertainty related to going concern for the Group at the time of signing the financial statements. The closure of the hotels and restaurants for an extended period of time has a significant impact on the revenue, profits and cash flow of the business. However, given the uncertainty regarding the duration, extent and ultimate impact of the COVID-19 pandemic, the Group cannot estimate with any precision the impact on its prospective financial performance. As a result of the uncertainties surrounding the forecasts due to the COVID-19 pandemic, the Group has also modelled a scenario which assumes that hotels are shut throughout the going concern period (reverse stress test). This shows that the Group has enough liquidity (when taking into account the proceeds of the Rights Issue as discussed below) to continue to meet its obligations as they become due, for at least 12 months from the date of signing the financial statements if the sites were not to re-open during that period. The Group has identified a number of mitigating actions, including securing waivers across all covenants for 18 months, the raising of £1 billion through a fully pre-emptive rights issue and potential sale of freehold assets. In assessing the funding available, the Directors have modelled the proceeds of the rights issue within their reverse stress as it has been fully underwritten. A key judgement exists in making this determination as the Underwriting Agreement has certain conditions which exist between the date of this annual report and the rights to trading, expected to be up to 5 days. These conditions include Material Adverse Change (MAC) clauses (i.e. the right to terminate should a material unforeseen event occur) which are outside of the Directors' control. The Directors have assessed that the probability of the Underwriting Agreement not becoming unconditional is remote. As at the date of this report, the global outlook as a result of COVID-19 is significantly uncertain and the range of potential outcomes is wide-ranging and unknown. In particular, should the impacts of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors, the Group's going concern status would be dependent on its ability to access additional liquidity. For example, the Group applied for the Bank of England's COVID-19 Corporate Financing Facility (CCFF) with an issuer limit of £600 million, which was confirmed as successful on 14 April 2020. Although, due to the terms of the loan, the Group is unable to rely on the CCFF funding in assessing going concern. As a result of the impact of COVID-19 on the Group and the uncertainties regarding liquidity and covenant positions outlined above, we identified a key audit matter related to going concern due to the significant judgement required to conclude that there is not a material uncertainty.

Extracts of annual report of international companies

Whitbread PLC
Independent Auditor's Report
on the Financial Statements for the year ended 27 February 2020

Key Audit Matters (Continued)

5.1 Going concern continued

How the scope of our audit responded to the key audit matter	We performed the following audit procedures which consider the impact of the uncertainty of the COVID-19 pandemic and going concern assessment performed:
	- Obtained an understanding of the key controls relating to the Group's forecasting process;
	- Verified the mechanical accuracy of the model used to prepare the Group's forecast;
	- With assistance from our specialist debt advisory team, we reviewed key loan and bond documentation to understand the principal terms and related financial covenants and performed a review of the Group's existing and forecast covenants;
	- Reviewed the correspondence in relation to covenant waivers and assessed the terms and conditions, and confirmed their consideration in the forecasts;
	- Assessed the timing and status of the rights issue at the date of signing the financial statements, and the probability of the MAC clauses being invoked, including the review of legal advice received by the Group;
	- We utilised our internal transaction specialists to assist in assessing the appropriateness of forecast assumptions by:
	  - Challenged, with reference to external data, the key assumptions underpinning the Group's forecasts, in particular the impact of events taking place after the balance sheet date;
	  - Assessed the likelihood of the assumptions in the reverse stress test and the impact of reasonably possible downside scenarios on the Group's funding position;
	  - Compared forecasted sales to recent historical financial information to assess management's ability to forecast with accuracy;
	  - Challenged and reviewed the covenant waiver proposals and financing options available; and
	  - Assessed and challenged the mitigating actions available to the Group, including the government CCFF funding and the rights issue.
	- Assessed the sufficiency of the Group's disclosure concerning the going concern basis.

Key observations	The Directors' forecasts, as well as reasonably possible downside scenarios, including the reverse stress test, indicate that the Group has sufficient financial resources over the going concern period. Based on the information available as at the date of this report we consider the forecasts prepared by the Directors and their underlying assumptions to be reasonable. We have reviewed the disclosures prepared by the Directors set out on page 128 and consider them to be appropriate.

Extracts of interim report of international companies

Avianca Holdings S.A. and Subsidiaries
Unaudited Condensed Consolidated Interim Financial Statements
For The Quarter Ended 31 March 2020

Accounting Policies – Basis of Preparation (Note 2)

(a) Statement of compliance

The condensed consolidated interim financial statements as of and for the three months period ended March 31, 2020 and 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements as of and for the year ended December 31, 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The consolidated interim financial statements of the group for the months ended March 31, 2020 were prepared and submitted by Management and authorized for issuing by Audit Committee on June 15, 2020 that have been delegated by the Board of Directors.

(e) Going Concern

The condensed consolidated interim financial statements have been prepared on a going concern basis. The Group has recognized a net loss after tax of $121,195 for the three months ended March 31, 2020, and $893,995 for the year ended December 31, 2019, that originated a equity deficit, as at that date, the consolidated statement of financial position reflected an excess of current liabilities over current assets of $3,114,433 and $495,580 (excluding air traffic liability and frequent flyer deferred revenue). The World Health Organization declared COVID-19 a pandemic and, in March 2020, governments around the world, including those of the United States, Colombia and most Latin American countries, declared states of emergency in their respective jurisdictions and implemented measures to halt the spread of the virus, including enhanced screenings, quarantine requirements and severe travel restrictions.

Following orders by the governments of Colombia and of other countries in which we operate, we have temporarily ceased international passenger operations to and from Colombia, ceased all Colombian domestic passenger flight operations and cancelled all passenger flights to and within Peru, El Salvador and Ecuador. As a result of these measures, substantially all of our passenger flights have been cancelled and our corresponding fleet has been grounded. In addition to reducing capacity, in order to mitigate the effects of these developments, we implemented additional cost savings and liquidity preservation measures, including temporary deferral of non-essential expenses, capital expenditures and labor contracts, as well as a suspension on hiring of new employees, an implementation of voluntary unpaid leave of absence and temporary salary reductions, which have resulted in a reduction of approximately 34% in salary wages and benefits expenses until May 2020, as compared to the same period in 2019. Additionally, the group has cut all non-essential capital expenditures, and has suspended payments on leases and on payment of principal on certain loan obligations in breach of debt covenants on aircraft financing loans and other loans. Requests from our creditors regarding defaults or debt covenants are subject to the development of Chapter 11 (See Note 27). The spread of COVID-19 and the government measures taken to address it have already had a material and adverse effect on the airline industry and on us and have resulted in unprecedented revenue and demand drop as well as overall macroeconomic uncertainty. As of the date of this report, the group passenger revenues have decreased 51% year to date, as compared to the same period in 2019. We cannot foresee or quantify the extent of the impact of COVID-19 on our operational and financial performance, which will depend on developments relating to the spread of the outbreak, the duration and extent of quarantine measures and travel restrictions and the impact on overall demand for air travel, all of which are highly uncertain and cannot be predicted. As a result of extremely challenging market conditions, the suspension of our passenger travel operations, our current financial situation, and the resulting risks and uncertainties surrounding our Chapter 11 proceedings (See Note 27), there is significant uncertainty about our ability to continue as a going concern. Our ability to continue as a going concern depends, among other things, on our capacity to (i) restart our passenger travel operations profitably, which depends on many factors beyond our control, mainly related to derived developments of the spread of COVID-19, its impact on passenger air transportation demand and government measures regarding travel restrictions, quarantine requirements, and others, and (ii) successfully developing and implementing our Chapter 11 reorganization plan.

The continuity of the group as a going concern is subject to the success of the negotiation and execution of the reorganization plan, a process that can last from 12 to 18 months.