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### Accounting and finance lessons in the time of COVID-19 – Views from the Pacific Basin

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## Accounting and finance lessons in the time of COVID-19 – views from the Pacific basin

The COVID-19 pandemic is expected to create the worst economic recession in our lifetime and generate “enormous damage to our health, jobs, and well-being” (OECD, 2020). This special issue focuses on the lessons for accounting and finance policy-makers, practitioners, and academics as a result of the social and economic turmoil that arose in the immediate period following the World Health Organization’s declaration of a pandemic (WHO, 2020). Governments responded to support businesses and economies using various policy tools to support markets, businesses and individuals impacted by the pandemic. It is timely to consider the extent to which policymakers and standard-setters have succeeded in addressing these problems, and to consider to what extent accounting and finance tools available were “fit-for-purpose”. Different countries reacted in different ways to the COVID-19 pandemic and experienced different infection and fatality rates. For example, the New Zealand government announced an alert level system on 21 March 2020 [1]. New Zealand moved immediately into Alert level 2, two days later into Alert level 3, Alert level 4 another two days later. New Zealand therefore used a very strict lockdown implemented quickly, with the aim of eliminating the virus from the community as soon as possible. Other countries followed different approaches. The New Zealand approach worked well in terms of the demographics and relative isolation of the country. It is therefore of interest to consider the implications of COVID-19 across countries both within this special issue with views from different Pacific Basin countries and across COVID-19 special issues in different accounting and finance journals around the world [2].

Since COVID-19 has important social and economic impacts, there is a need for organisations, including businesses, the public sector, the education sector, and NGOs to inform their stakeholders as to how they are dealing with the pandemic. This includes providing information on how they dealt with the initial threat and kept their stakeholders (i.e. employees and customers) safe, as well as how the pandemic impacted their ongoing operations. Society was obviously initially concerned about the threat of illness and death from contracting the disease, but as that threat was addressed through distancing and other measures, the next concern became ongoing income for basic needs. Details on how organisations supported their employees and customers therefore became important. Information on wage and other government subsidies that businesses received and whether they were entitled to it, as well as information regarding staff layoffs, profits earned and dividends paid during the pandemic are very relevant. The role of accounting and finance to provide reliable information both of a financial and social nature is important to help improve transparency and build trust.

This special issue brings together a spectrum of viewpoints from academics working in the Pacific region reflecting on how COVID-19 has affected and will affect accounting and finance policy and practice. This special issue focuses on how the accounting and finance sectors responded to the crisis and identifies areas requiring further academic research and policy reform. We sought short viewpoints, reflections and commentaries by Pacific Basin academics on accounting and finance issues that arose in the immediate aftermath of the pandemic and the economic crises that accompanied it. The intention of this issue is to act as a touchpoint for further research into the longer-term impacts of the pandemic for accounting and finance. Our intention was also to highlight key areas of practice and policy



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reforms that are needed to address weaknesses exposed in the response to the initial economic shock. This issue is the first of two that contains a variety of viewpoints that demonstrate the breadth of impact that COVID-19 had on global economies and the important role that financial institutions had to play in managing the crisis.

Accounting and finance practitioners and academics will be needed to support the post-pandemic economic recovery. This recovery is likely to affect different countries at different times and rates of change. While the World Bank is predicting the “most robust post-recession recovery in 80 years”, it acknowledges that the recovery will be uneven (World Bank, 2021). Issues related to economic recovery such as ongoing disease transmission, vaccination rates, income inequality, changes in workforce access and skills, technology and higher government debt are likely to have long-term impacts. Research is needed to examine the role the accounting and finance industry is playing in supporting economic recovery, the skills required in the accounting and finance professions to address the new way of working, and to explore what policy reforms are needed and to evaluate the impact of reforms that have been implemented.

A challenge for research is to separate the effects of ongoing policy initiatives that originated from the Global Financial Crisis more than a decade ago from the effects of the Covid-19 pandemic. A case in point is the entry into force of the forward-looking provisioning model under US-GAAP and IFRS. Increased provisioning could be the result of the new accounting standard, or of weaker economic conditions, or both. Such challenges will call upon the skills, knowledge and imagination of academics and highlight the importance of keeping up with policy initiatives on the one hand and research methods on the other.

This issue comprises nine articles: one examines the impact on financial markets; four discuss issues related to tax policy, regulations and standard-setting; one comments on the impact of the pandemic for sustainability reporting; one reviews the impact measurement of not-for-profit organisations; and one examines the response to austerity measures by the performing arts sector. The articles are introduced below.

The financial markets were among the most visible financial institutions affected by the pandemic as it caused high levels of volatility in global markets. Naeem *et al.* (2021) explore the impact of the early COVID-19 crisis on the connectedness and interdependencies of different financial markets. They compare normal market conditions, where alternative investment markets, such as cryptocurrencies, bonds and gold, provide portfolio diversification benefits to the crisis conditions. Their findings suggest there were no “safe havens” during the crisis. Instead, the pandemic led to a strengthening of the return connectedness between traditional and alternative financial markets.

An obvious area of research and practice focus in the future will be an evaluation of the many economic measures implemented by governments to address the immediate impacts of the pandemic. Wong and Wong (2021) examine the economic rationale and accounting for wage subsidies and other grants provided to businesses, particularly those offered during the COVID-19 lockdowns. They highlight the dividend-paying behaviour of some companies receiving these subsidies and raise moral issues inherent in doing so. Similarly, Sadiq and Krever (2021) provide a commentary on the suitability of different initial tax policies adopted in six countries across the Pacific Basin and elsewhere. They advocate longer-term reform that focuses on extending the recognition of tax losses and highlight some of the short-term reforms that did not achieve their objectives and on the limitations of tax policy to respond to immediate financial hardships.

Accounting standard-setters also responded to COVID-19. Teixeira (2021) reflects on the relief provided by the IASB and FASB under their relevant standards covering the

accounting treatment of leases. He discusses why such relief should be needed and argues that accounting standards, more broadly, should be robust enough to withstand economic shocks. He raises the interesting point that perhaps the exceptions created in response to COVID-19 should be incorporated into standards in the longer-term.

Routledge (2021) reflects on the effectiveness of insolvency law in dealing with the expected increase in the numbers of companies facing financial distress because of the pandemic. He discusses how current insolvency law was not designed for the challenges arising during an economic crisis such as the COVID-19 pandemic. Recommendations are made on ways the law could be updated to focus on rehabilitation through a change in the current “excessive” focus on creditors.

Hay *et al.* (2021) discuss the early impact of the pandemic on auditing in New Zealand and reflect on the types of auditing reforms they expect will be implemented in response to the lessons from this period. While the impact on auditing was less substantial than expected, the authors highlight areas such as going concern issues, inspections of auditors and auditor liability to be the subject of reform to address.

Ramachandra (2021) looks at the impact of the pandemic on the third sector, specifically, the performing arts sector in New Zealand. He examines submissions made by performing arts organisations in response to proposed reductions in funding and discusses the role that accounting could play in acting as both a “sword” and a “shield” for these organisations. He advocates for better links between artistic logics and economic outcomes as a way of supporting cultural activities that are often the first to suffer during an economic downturn.

Yang (2021) reviews the key aspects of impact measurement and collaboration at not-for-profit organisations. She argues that the pandemic highlighted the need for these organisations to acknowledge the significance of impact measurement and the importance of collaboration within the New Zealand not-for-profit sector.

More broadly, Zharfpeykan and Ng (2021) discuss sustainability reporting following the Global Reporting Initiative (GRI) in terms of three common theories of reporting and discuss the role of reporting under crisis conditions versus business-as-normal. They advocate a shift in reporting during crises that emphasises the vulnerable. Furthermore, they highlight areas of the GRI reporting framework they consider need strengthening to better report on organisations’ flexibility in dealing with social, environmental and economic uncertainties arising from crisis conditions.

## Conclusion

This special issue brings together an interesting and thought-provoking collection of papers on the implications of the Covid-19 pandemic on a range of accounting, auditing, financial, and disclosure items. We hope that this will lead to future research and debate on these issues in the Pacific Accounting Review and in general.

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**Notes**

1. In brief, Alert 4 means total lockdown, residents are only allowed to leave their homes for buying essentials and exercise by themselves; Alert 3 is a semi-lockdown where more than essentials were for sale, working from home apart from certain essential services and jobs, only take-away food available, no sit down in restaurants; Alert 2 means certain restrictions on gatherings and restaurants, but employees could go back to work under certain restrictions; Alert 1 restricts all international travel, but local restrictions are lifted except for wearing face masks on public transport.
2. Examples include “Expedited Issue on COVID-19 and Corporate Sustainability” by *Accounting and Finance*; “Special Issue on Economic and Financial Implications of COVID-19” by *Journal of Risk and Financial Management*; “Accounting, Management, Finance, and Accountability in Times of Crisis: A COVID-19 Perspective” by *Accounting, Auditing & Accountability Journal*; “Special Issue on Covid-19: Social, Financial and Economic Implications” by *Australasian Accounting, Business and Finance Journal*; among others.

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