

Navigating the impact of COVID-19 – POV #6

Tactical financial close and reporting considerations

This is the sixth in an ongoing series of Deloitte Canada perspectives, designed to offer timely insight and ideas to finance teams as they navigate the impact of COVID-19.

Setting the stage

The impact of COVID-19 on organizations is evolving rapidly, and displacing many operational finance processes. Much of the disruption comes to a head in executing period end financial closing and reporting cycles. Organizations must take action now in order to prevent delays and reduce the risk of error and misstatement, all with an eye on preserving stakeholder confidence.

As organizations adapt to executing their close activities remotely, successfully navigating this new “normal” will require discipline, diligence, and a plan to ensure all activities are completed while considering and mitigating new risks.

We anticipate even more challenging times ahead, as economic impacts and abrupt changes in supply and demand across industries will drive increased requirements for information and analysis. This intense focus on ad hoc reporting and deep dive analysis will create capacity issues on already constrained resources.

As you work through the balance of your year end or Q1 reporting obligations, and begin to look ahead to Q2 and future reporting cycles, it is important to acknowledge what worked and what didn’t, and track your successes and failures.

COVID-19 will eventually be behind us, but its aftershocks will be felt across operational finance well beyond the life of the pandemic.

Addressing disruption, head-on

Working through your first remote close and reporting cycle, you have likely already taken these essential steps:

- Established your virtual command centre and communication strategy with IT support
- Agreed on the use of a secure collaboration portal and user access to hold your close calendar, checklists, and status tracking online
- Analyzed your checklist to identify potential bottlenecks and areas of highest risk
- Considered the additional disclosures that may be necessary
- Considered internal control implications of remote transaction processing, close activities, and changes to standard operating procedures
- Prioritized resources to allow for additional deep dive analysis into results that may vary significantly from comparative periods
- Have capacity and sufficient tools for ongoing cash flow and liquidity monitoring, and tracking of covenant impacts
- Respond to the impact of breaches to covenants, including production of loan waivers, and financial statement presentation and disclosures
- Have in place a sufficiently robust model for forecasting scenarios and sensitivity analysis
- Established frequent checkpoints with key executives to address critical financial metrics and impacts
- Have communicated with your auditor, and addressed any timing and logistic issues
- Are prepared to deal with accounting, audit, tax, investor/stakeholders, board, and other cross functional issues in real time

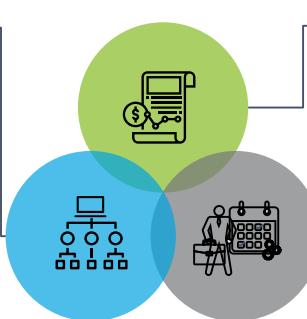
In this report, we expand further on the above, grouping them into three priority areas of concern that is keeping Finance executives up at night (sometimes, literally): Accounting, Cash flow, and Communications.

Framework for execution

Consider the following framework as you execute your reporting cycles. The impact and considerations of each element should be addressed as you work through this year end or Q1 reporting, and prepare for Q2 and future cycles.

Accounting

- Transaction processing
- Complex accounting
- Period end closing
- Financial statement, note disclosure and MD&A production
- Internal controls over financial reporting
- Audit & compliance



Cash flow

- Working capital management
- Liquidity modelling & cash forecasting

Communications

- Investor & stakeholder communications

COVID-19 Tactical actions to address key issues and challenges

Issues and challenges	Actions
Accounting <ul style="list-style-type: none"> Transaction processing <ul style="list-style-type: none"> • Impacted employees will have reduced capacity and may expose knowledge gaps • Access to financial systems and data may be impacted • Manual processes may require re-engineering or management overrides • Shared-services and delivery centers may not have remote capabilities Complex accounting <ul style="list-style-type: none"> • Uncertainty over accounting treatments related to the unprecedented nature of the pandemic • Judgement required in the use of accruals and estimates will carry increased complexity and scrutiny • Myriad of accounting considerations including (but not limited to): <ul style="list-style-type: none"> • Onerous contract provisions • Valuation of inventories • Impairment of non-financial assets • Allowance for doubtful accounts • Impact of business restructuring activities • Measurement uncertainty for estimates, due to lack of information 	<ul style="list-style-type: none"> • Consider timing and task distribution adjustments • Consider the increased use of accruals or estimates, where appropriate • Be sure preparers and reviewers have access to systems and data they need to get the job done • Hire or engage loan staff to support Finance's backfill needs • Ensure on-call IT support is coordinated and available • Consider market value declines, negative changes in markets and economies, and estimates of undiscounted cash flows • Consider collectability and ability to deliver contract completion • Evaluate to determine if there has been any "other than temporary" decline in the value of an investee which would trigger impairment • Consider ability to continue as a going concern within one year after the date of issue • Evaluate need for restructuring accruals due to workforce or facility reductions • Ensure alignment of accounting treatment with internal stakeholders, particularly for key estimates and respective disclosures • Leverage Deloitte guidance around accounting issues related to COVID-19. For example, see IFRS in Focus: Accounting considerations related to the Coronavirus 2019 disease¹ or our latest Public Sector Accounting Update: Public Sector Accounting Considerations Related to COVID-19.
Period end closing <ul style="list-style-type: none"> • Most organizations in Canada have only recently transitioned to a remote working model, and are now being tested in a period-end close environment • Key finance staff may become unwell or face capacity constraints due to family responsibilities and unable to perform their roles during the period end close process 	<ul style="list-style-type: none"> • Establish daily cadence, hand offs, accountabilities governing the close process • Coordinate close and reporting timelines, adjusted for capacity and capability constraints • Stay updated on regulatory changes, including filing extensions • Adopt a dynamic close calendar, incorporating interdependencies, and key inputs required (including those that come from outside of Finance)
Financial statement, note disclosures, and MD&A production <ul style="list-style-type: none"> • Changes in disclosure of material risks may be required due to the macroeconomic impacts of COVID-19 	<ul style="list-style-type: none"> • Consider how your organization's current finance service delivery model is impacted by the short-term and longer-term impacts of COVID-19 • Consider the need to leverage external advisors for guidance and changes to reporting requirements • Pay particular attention to any subsequent events that may have occurred after the balance sheet date, but may still impact your disclosures • Consider MD&A disclosure to represent the effects of COVID-19 to your entity, and how management is responding. Refer to POV#2: "What disclosures are public companies making that relate to COVID-19?"
Internal controls over financial reporting <ul style="list-style-type: none"> • Uncertainty surrounding the total impact and duration of COVID-19 • Controls may not have been designed to execute in a work-from-home environment • Changes to the organization's risk exposure, including fraud 	<ul style="list-style-type: none"> • Perform a refreshed risk assessment to consider increased or new risk areas as a result of COVID-19 • Evaluate key controls for impacts of remote work and system implications, ensuring mitigations are in place and fully documented • Ensure that collaboration platforms allow you to direct comments, upload attachments, and document approvals • Consider expanding available resources and flattening delegation of authority to reduce single person dependency risk • Consider altering procurement controls to address current supply chain constraints while continuing to maintain adequate controls • Prepare to articulate control impacts and required mitigations to those required to certify

Issues and challenges	Actions
Accounting (cont'd)	Audit & compliance
	<ul style="list-style-type: none"> General ledger analytics and final review may be revised to target key risk areas in financials, due to time and resource availability Capacity constraints and availability of hardcopy working files will pose issues for both internal and external auditors
	<ul style="list-style-type: none"> Connect with internal and external audit teams to ensure a plan is in place for remote testing procedures
Cash flow	Working capital management
	<ul style="list-style-type: none"> Strain on ability to produce accurate and timely cash flow reporting for management decision making
	Liquidity modelling & cash forecasting
	<ul style="list-style-type: none"> Complexity in isolating COVID-19 factors from ongoing operations when comparing actuals to budget (and other variance analysis) Forecasting impacted by market volatility and uncertain future
Communications	Investor & stakeholder communications
	<ul style="list-style-type: none"> Uncertainty in the economic environment will hinder ability to provide meaningful earnings guidance to the market Quantifying the impact of business interruptions such as failed/delayed corporate actions or product launches
	<ul style="list-style-type: none"> Consider the use of non-GAAP measures to adjust various impacts of COVID-19. Refer to POV#3: "COVID-19 Related Non-GAAP Financial Measures"
	<ul style="list-style-type: none"> Prepare to address the impact of COVID-19 to your stakeholders. Refer to POV#5: "Lessons from the inside – how companies are approaching earnings in a COVID-19 world"
	<ul style="list-style-type: none"> Evaluate logistics for hosting remote audit committee meetings, AGM meetings and press conferences

Concluding remarks

Despite the many operational finance challenges COVID-19 has presented, it has also served to highlight many important opportunities. The challenges you encounter while navigating the disruption of COVID-19 must be seen as a catalyst to elevating your finance function to the next level. As organizations recover from the initial shock, they must quickly focus attention on positioning themselves to emerge stronger. Our view is that Finance must play a key role in positioning their organizations to thrive.

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²<https://www2.deloitte.com/ca/en/pages/finance/articles/covid-19-managing-cash-flow-during-a-period-of-crisis.html>

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