COVID-19 and into the new reality: What does it mean for finance?

During these uncertain times and with ‘year-end’ here, it is more critical than ever to have a highly effective finance function enabling quality business decision-making.

What are the critical considerations for CFOs?

**Stakeholder engagement**

Uncertainty and changing needs of stakeholders mean CFOs need to proactively manage communication.
- Clarify information needs, agree a communication strategy and plan for timely preparation.
- Think carefully about content and strategic alignment to ensure consistency in messaging.
- Communicate short term actions and well thought through longer term impacts.
- Seek assurance over reporting where users concerned about reliability or a high level of inherent uncertainty.

**Cost reduction and optimisation**

Use disruption to improve how finance operates.
- Identify opportunities to reset fixed costs to variable. Implement reporting dashboards to ensure benefits realised. Embed cost optimisation as a continual process.
- Evaluate sustainability of early cost saving initiatives which could harm employees long-term.
- Refuse to return: retain the benefits of new ways of working and lock-in efficiencies.
- Accelerate adoption of digital technology to increase effectiveness of routine financial control and reporting activities; refocus capital expenditures on projects that reduce business overheads.
- Consider managed services where expertise lacking or to maintain focus on core areas.

**Continuity of the finance function**

Disruption is unlikely to be a one-off event, yet the need for financial information almost real time is so much greater.
- Critically appraise delivery models underpinning finance operations and key processes. Identify the essential needs and activities; reprioritise accordingly.
- Assess the adequacy of business continuity; plan for further waves of disruption through ‘worst-case’ and ‘best case’ scenarios; and understand the need for scalability of each option.
- Identify options and availability for workforce augmentation to fill short and medium – term gaps. Determine what critical expertise/knowledge may be needed and how to secure flexible supply.

**Cash and working capital management**

There is a critical need to monitor cash closely; this may be hindered by long reporting times and forecasting difficulties.
- Ensure strong cash management practices are in place. Understand the working capital cycle, place additional focus on collections and review payment terms with key suppliers.
- Develop flexible, real-time cash and working capital reporting to enable rapid business decision-making.
- Focus on the quality (completeness, accuracy and timeliness) of underlying data to ensure reliability of information.
- Review slow-moving inventory and recoverability of work in progress.

**New sources of funding**

Securing funding through tough economic conditions is a must; and may lead to new KPIs and reporting obligations.
- Understand financial information needs of new lenders and investors.
- Use scenario modelling to assess available options, including government funding and impacts on the financials, KPIs and covenants.
- Consider off balance sheet structuring options.

**Maintaining financial control**

New ways of working may result in control failure or changes to processes and controls, increasing effort at reporting dates.
- Refresh overall financial and reporting risk assessments and prioritisation effort; remove “nice to have” activities.
- Re-evaluate control frameworks and ensure new risks adequately controlled.
- Conduct a gap analysis on current business processes to ensure controls in place for the year end audit.
- Consider need for additional team oversight and support when working virtually.
- Agree changes in audit scope early and ensure readiness.
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What are the specific accounting and reporting considerations?

### Asset values and going concern

Financial and non-financial assets may no longer be supportable or may be impacted by currency movements.

- Review existing models supporting assertions (e.g. impairment models, expected credit loss models) and ensure updated with revised assumptions and data.
- Review and benchmark significant judgements with updated market information.
- Understand whether a material uncertainty exists over going concern and what additional support the board and your auditor may need.

### New accounting events

Many will have to deal with new accounting areas or revise assumptions in judgemental areas.

- Review existing accounting treatments and ensure these are still relevant. Re-evaluate assumptions, e.g. employee benefits.
- For new areas such as government assistance, understand the relevant accounting guidance, including options and policy choices.
- Identify new financial statement disclosure requirements and data needed to comply.
- Re-evaluate your hedging strategy and understand how to account for changes.
- Agree new accounting policies, judgements and disclosures with your auditor.

### Contract modifications

Accounting for revised customer and supplier arrangements is complex and involves significant judgement.

- Understand the accounting guidance and stay abreast of expected updates on rent concessions.
- Assess functionality of existing systems and processes to accommodate changes.
- Determine new accounting treatments and obtain auditor “sign off” early to avoid last minute surprises.

### Compliance with reporting obligations

Almost certainly there will be increased scrutiny on external reporting, especially forward-looking disclosures.

- Understand key focus areas for regulators, auditors and investors.
- Carefully plan for deadlines, activities and priorities. Consider a dedicated project manager to oversee reporting activity.
- Use the operating and financial review or management commentary to explain performance pre-COVID-19; its impact; the company’s response and future outlook. Explain the business’ resilience to shocks and agility to change.
- Re-challenge and validate assumptions for forward-looking information.
- Ensure consistency of disclosures across all different forms of external information.

Please contact our experienced team if you have questions or would like to understand how we can help.

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