

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.



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.



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.



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.



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.



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.

KPMG's CFO Advisory team

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

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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.



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.



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.



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.

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