PwC Factsheet developed exclusively for Institute of Directors in Ireland

Five questions for your financial reporting

COVID-19 has far reaching implications, as we are all quickly learning. One such area that could be easily overlooked is the area of financial reporting. It is important to get the numbers right and to ensure full compliance with accounting rules and best practice and to consider your disclosures from an investor and stakeholder perspective. From cash flow projections, recoverability of assets and implications for contracts, the picture may be vastly different since the onset of COVID-19.

In line with accounting rules, companies should consider the following five key questions:

1 Are cash flow projections and forecasts still valid?

Cash flows and forecasts are often used in models to support assessments of the recoverability of certain assets, as well as the viability of businesses as going concerns. It is important that assumptions underpinning these cash flow projections should be critically assessed to incorporate the impact of COVID-19. This may include the expected impact arising from restrictions on operations, supply chain disruption and customer demand.

2 Is a full asset impairment assessment needed?

An impairment assessment, which means assessing whether the value of an asset is above or below its carrying value on the balance sheet, may be needed under IFRS or UK/Irish GAAP. For example, a cessation of operations (even temporary), a decrease in the value of a publicly traded company's share price to below book value and an immediate decline in demand for a company's output, are all indicators of impairment that would require an impairment assessment to be performed.

3 What is the impact on revenues, receivables and stocks?

It is important to assess the extent of financial difficulties faced by your customers and the impact on the timing of revenue recognition, expected credit losses on receivables and the net realisable value of inventory.

4 Are there any accounting implications as a result of possible business remediation measures?

To stem the financial implications arising from the COVID-19 business disruptions, many organisations will seek to renegotiate contractual terms with suppliers and financial institutions,take measures to reduce its cost base as well as availing of government subsidies and tax reliefs. Companies should carefully consider the financial reporting implications of these remediation measures.

5 Are financial statement disclosures adequate?

Irrespective of the impact on reported assets and liabilities, the impact of COVID-19 will likely require additional disclosures in financial statements. As a matter of course, companies are required to disclose the significant judgements applied in preparing the financial statements, including any judgements regarding going concern. The impact of the pandemic may result in the application of new policies or change significant judgements and critical estimates used in those financial statements, all of which require disclosure. Timely communication of any material changes in accounting estimates or additional disclosures are important at this time, especially at such an evolving situation as this clearly is.

Think Beyond

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10 point checklist for Board consideration

As the COVID-19 pandemic continues, the business community is feeling unprecedented impacts. There are numerous strategic, operational and policy concerns impacting both the long term and short term, but Boards will want to consider the following business matters:

1. **Employee well-being and employment risk:** Many companies will have addressed workforce safety. Companies will now want to consider how to sustain remote and secure working capabilities. It is also critical that there is clarity on the legal and internal policy landscape for any difficult decisions made regarding employees.

2. **Impact on strategy:** Consider the Board's responsibility for risk and strategy oversight.

3. **Transactions, opportunities and activism vulnerability:** If your company is in the midst of a transaction, access to information for due diligence and pricing will be challenging.

4. **Dividend and share repurchases:** Many Irish and UK public companies have cancelled their 2020 dividends due to the challenging economic environment. Many Boards will have decisions to make on dividends.

5. **Supply chain:** Boards should be asking whether there is sufficient liquidity for supply chain operations, whether supply chain scenario modelling tools need upgrading and if increased workflow automation is needed.

6. **Liquidity:** Companies will need to take a close look at their future cash flows including any impact of falling revenues, delayed receivables and the need to pay some suppliers faster.

7. **Cyber risk:** With increased remote working, increasing cyber risks are emerging due to phishing emails, malware, ransomware and video conferencing. Increasing the awareness of cyber risk when remote working is the most effective mitigant to address these new threats.

8. **Tax policy:** Non-Executive Directors should be asking management if they have availed of all of the Government supports available and consider the tax implications.

9. **Human capital and executive compensation:** Compensation committees will need to think about how incentive plans may need to be changed or modified as a result. These changes could result in significant accounting implications.

10. **Tone at the top and business conduct:** Boards will want to ensure that they remain focused on the tone at the top and corporate culture during times of crisis, particularly if there are changes in the operation of internal reporting structures.

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