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4 Key Risk Areas for Accounting & Financial Reporting in 2020

To reduce costs during the COVID-19 shutdown, many public companies have reduced or furloughed accounting and finance staff, distancing them from institutional, process or system-based accounting knowledge needed to properly execute key operational accounting and financial reporting tasks during month-end and quarterly close.

As companies prepare and brace for the full impact of COVID-19, starting with June 30th ("Q2") financial statements and disclosures and into the rest of 2020, accounting executives should consider the following to manage risk inside their accounting organization:

1 Managing Fatigue and Workload of Overburdened Accounting and Finance Staff

Without question, the unexpected and unprecedented nature of COVID-19 has placed a great deal of stress and strain on the workforce across America. Accounting and finance professionals are working and collaborating with their teams – locally and abroad – from home offices, which will likely become the "new normal" for many workers. This juggling act has led to an increased risk of mental overload and fatigue. Accounting leadership needs to ensure that their accounting and financial reporting staff remain engaged, feel connected, and understand they are supported and valued – ensuring the continued execution of key accounting processes and tasks and helping minimize financial reporting risk.

2 Look for Potential New Gaps in Internal Controls over Financial Reporting

As part of preparing and certifying Q2 financial statements, accounting leadership needs to ensure that execution and documentation of internal controls over financial reporting, including disclosure controls and procedures, continue to occur. This includes ensuring that a company's supportive monitoring and detective internal controls are also performed and continue to operate effectively. Given the potential stress placed on the accounting and finance team, accounting leadership should not assume key controls are continuing to operate effectively but use this time to take a closer, all-around look. Consider coordinating with Internal Audit regarding the performance of additional and increased testing of key internal controls over financial reporting during Q2 and Q3 2020.

3 Be Aware of the Effect of Short-Term Earnings Pressures

While pressure may not exist to meet prior earnings estimates, it may exist for companies to keep up with industry and peer performance in the near term. In this regard, accounting leadership should keep a keen eye toward proposed and posted adjustments, at the general ledger and "top-side," consolidated level, that may impact revenue or more specifically, the outcome in calculating a non-GAAP financial measure. Attention should be given to the execution and documentation of journal entry internal controls to properly substantiate one-time, new, or large accounting adjustments, especially those impacting revenue.

> *"One of the greatest challenges for companies will be identifying and quantifying the financial impact in their financial statements as a result of the potential impairments to goodwill, intangible and other assets brought about by COVID-19".*

4 Document Support for Timing of Asset Impairments and Non-GAAP Measures

While there certainly will be general earnings pressures as previously mentioned, there may also be pressure to manage the timing or dollar amount of pandemic-driven impairments in a company's Q2 financial statements.

In this regard, accounting leadership should ensure that all necessary judgments, estimates and inputs to valuations are robust, supportable and properly and sufficiently documented for U.S. GAAP accounting purposes. For public companies, statements made concerning pandemic-driven impairments, and their impact to a company's financial statements and disclosures reported in Q2-Q3 2020 regulatory filings, will be the subject of increased scrutiny by the SEC and others, necessitating accounting leadership's increased attention.

Additionally, with respect to non-GAAP financial measures, public registrants may be considering including and presenting adjustments for "COVID-related" costs. Consideration should be given to ensuring that appropriate disclosure is included in regulatory filings to sufficiently define these costs. Registrants should also describe whether the costs or adjustments are directly related to COVID-19 and whether any new adjustments are likely to be recurring (see Regulation S-K, Item 10(e)).

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