



Special Edition

Audit Committee *Brief*

Accounting and financial reporting considerations for audit committees regarding COVID-19

The *Audit Committee Brief* focuses on the timely coverage of issues and insights important to audit committees. Questions, comments, or suggestions should be directed to centerforboardeffectiveness@deloitte.com.

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As a result of the coronavirus disease 2019 (COVID-19) outbreak, entities are experiencing a number of risks, including, but not limited to, the following: broad declines in consumer discretionary spending; reductions in revenues because of decreased demand and supply constraints; government intervention and legislation such as the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"); financial market volatility and erosion of market value; deteriorating credit; liquidity concerns; layoffs and furloughs; and other restructuring activities. In addition, the shift to virtual interactions brings risk related to an entity's processes,

including information technology access controls that may lead to increased cyber risks.

During these unprecedented times, audit committees should work closely with management to assess shifts in strategic priorities and business activities and understand and oversee the impact these issues may have on the financial statements and related reporting.

This *Audit Committee Brief* focuses on certain accounting and financial reporting considerations related to conditions that may result from the COVID-19 pandemic that will be critical for audit committee members to

understand and discuss with management and the auditor. We consider the following issues to be the most pervasive and challenging:

1. **SEC reporting** — The SEC has taken several actions, including granting relief related to certain filing deadlines and delivery requirements. Registrants that continue to be concerned that COVID-19 could negatively affect their financial reporting quality or ability to meet the modified SEC filing deadlines are encouraged to reach out to their auditors, legal counsel, or the SEC, as appropriate, to consider the availability of additional relief.

Key questions for management:

- Has management assessed whether the entity's financial reporting quality and ability to meet SEC filing deadlines have been affected by COVID-19 to such an extent that the entity should consider the relief offered by the SEC?
- Has management considered how using the extended filing relief may affect its access to capital markets?
- Has management considered how related compliance processes and procedures (e.g., board and shareholder meetings and document delivery and signature protocols) may need to be updated given current social distancing mandates?

2. **Financial reporting and disclosures** — The SEC's Division of Corporation Finance has issued guidance addressing the impacts of COVID-19 on (1) disclosure matters within filings, (2) earnings releases, (3) non-GAAP measures, and (4) considerations related to material nonpublic information.

Key questions for management:

- What information (i.e., measures, metrics, and KPIs) is management using to assess the impact of COVID-19 on the business, and how is such information shared with the audit committee?
- Given the rapidly evolving impact of COVID-19, has management considered providing timely updates to investors on the current and potential future effect of COVID-19 on the business, including any potential need to revise or withdraw previously issued guidance or projections?
- Are there any early-warning disclosures that the company should provide to investors regarding (1) charges that may be incurred and their potential magnitude, (2) revenue growth or profit margins that may no longer be sustainable, or (3) debt covenant or other liquidity issues?

3. **Accounting implications** — The use of forward-looking information is pervasive in an entity's assessment of, among other things, the impairment of nonfinancial assets (including goodwill), the

realizability of deferred tax assets, and the entity's ability to continue as a going concern. Additional complexities to consider are related to contract modifications, subsequent event recognition and disclosure, and the accounting for any government assistance the company may receive.

Key questions for management:

- In light of the significant uncertainties about the future course of the pandemic and related effects on the entity, what processes and controls has management used in the preparation of forward-looking information needed to comply with GAAP?
- Has management identified the full population of contract modifications and ensured that the appropriate accounting guidance has been applied?
- Are any of the provisions of the CARES Act or other forms of government assistance applicable to the entity, and, if so, have the effects of those provisions been reflected in the financial statements and related disclosures in accordance with GAAP?
- Are there any other unusual or non-routine transactions that may require careful consideration of the appropriate accounting treatment and disclosure?
- Have triggering events (e.g., decreased revenues, order cancellations, supply chain disruptions, store closures, or declines in share price) occurred that indicate that nonfinancial assets should be tested for impairment?

4. **Internal control over financial reporting (ICFR)** —

Entities may need to implement new internal controls or modify existing ones. Entities will need to consider the effectiveness of controls and whether a lack of information may affect management's ability to effectively operate controls. If a control cannot be performed, management may need to identify and evaluate control deficiencies.

Key questions for management:

- What is management's plan to revisit risk assessments, and at what frequency? What is management's plan to identify and monitor changes being made to its ICFR?
- What are the results of management's assessment of the impact on ICFR of employee absence because of illness, shutdown, or employee reductions?
- What is management's plan for communicating changes in ICFR and related findings to the audit committee during this period?
- Does management have a contingency plan in place, or is one being developed, that would allow for processes and controls to be completed remotely for quarterly and annual reporting?

- 5. Other considerations** — While this publication focuses primarily on certain accounting and financial reporting considerations that will be critical for audit committees to understand and discuss with management, there are other topics that the audit committee may need to focus on as well, including:
- *CARES Act* — The CARES Act provides more than \$2 trillion in financial assistance to federal agencies, state and local governments, businesses, and individuals. Given the size and reach of the legislation, just about all organizations and businesses need to better understand what it means for them and begin to assess next steps. Audit committees should ask management what it is doing to understand the implications of the legislation for the organization.
 - *Internal audit* — As part of its oversight of internal audit, the audit committee may seek to engage with the internal audit team to understand how the changing risk environment and a shift to virtual engagement might affect the internal audit plan.
 - *Culture, finance talent, and immediate succession planning* — Tone at the top remains important during a crisis, and the board and audit committee should continue monitoring morale across the organization through discussions with management and other employees, and by understanding shifts in what is being reported through hotlines. The pandemic may directly affect the health of employees, and the audit committee should understand how management is addressing existing and unanticipated gaps due to illness or other constraints on resources, especially across the finance and internal audit functions.
 - *Cyber risks* — Cyber risks increase as employees are working virtually. To the extent that the audit committee is involved in cyber-risk oversight and such cyber risks may affect financial reporting and ICFR, it will be important for audit committees to understand the additional risks and steps taken to address them, including through the use of effective user access controls.
 - *Changes in audit committee processes* — Audit committees may seek to modify the manner in which they operate and increase engagement with management and the auditor. Subjects that the committees may need to address include:
 - *Audit committee meetings* — Many audit committees are meeting, virtually, with management more frequently to discuss many of the topics outlined in this publication.
 - *Agenda reprioritization* — As audit committees engage with management to understand the evolving risks and their implications for financial reporting, agendas may need to be reorganized to address these immediate needs. Audit committees should continue engaging with management to execute existing mandates in accordance with their fiduciary duties.
 - *Auditor engagement* — The audit committee may have more frequent discussions with the auditor to understand the nature of any changes to the audit plan and risk assessment, especially in an environment in which audit work is being performed virtually or may be restricted in certain highly affected regions.

Upcoming Dbriefs and other webcasts

Special edition: COVID-19 and the CARES Act: Accounting and reporting considerations

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Other Deloitte COVID-19 resources

[Heads Up — Highlights of the CARES Act](#)

[Financial Reporting Alert 20-2 — Financial Reporting Considerations Related to COVID-19 and an Economic Downturn](#)

[Reacting to COVID-19 in Internal Control Over Financial Reporting](#)

[COVID-19: Virtual Close Preparedness](#)

[Managing Through COVID-19: Six Imperatives for CFOs](#)

[COVID-19 and the Board: A Chair's Point of View](#)

[Stepping In: The Board's Role in the COVID-19 Crisis](#)

[Resilient Podcast Series: How Businesses Can Confront the COVID-19 Crisis](#)

[Combating COVID-19 With Resilience](#)

For more COVID-19 guidance and insights, see these pages posted by the SEC, PCAOB, and AICPA:

[SEC Coronavirus \(COVID-19\) Response](#)

[PCAOB Response to COVID-19](#)

[AICPA Coronavirus \(COVID-19\) Resource Center](#)

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