

Financial Accounting Impacts Due to COVID-19: Focus on Internal Controls

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Lynn Fountain has over 38 years of experience spanning public accounting, corporate accounting and consulting. 20 years of her experience has been working in the areas of internal and external auditing and risk management. She is a subject matter expert in multiple fields including internal audit, ethics, fraud evaluations, Sarbanes-Oxley, enterprise risk management, governance, financial management and compliance.

Introduction



- The pandemic has and will continue to impact major economic/financial markets, and virtually all industries/governments are facing challenges.
- As the spread of the pandemic continues, entities are experiencing conditions associated with a general economic downturn.
- In our last two Lunch & Learns we discussed impacts financial statement disclosures and revenue recognition.
- This month we will focus specifically on internal controls

Agenda

- Discuss issues of ICFR
- Examine impact of economic events on key financial controls
- Identify potential considerations for complying with SOX and ICFR attestation.

- Additional Resources in CCH® Accounting Research Manager® —
Beth Patrick, Sales & Business Development Manager
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Impacted Topics

There continue to be many accounting and FR issues that should be on the radar of accounting professionals. These include (but are not limited to):

Forward looking CF estimates	Impairment testing and recoverability of impairment of assets	Indefinite lived intangible assets other than goodwill and LLA	Accounting for financial assets: <ul style="list-style-type: none">• Inventory,• Equity method investments,• Revenue recognition
Leases	Goodwill	Subsequent Events	Going Concern
Disclosures	ICFR	Exist or Disposal Costs	Loss Contingencies
Future Operating Losses	Insurance Recoveries	Government Grants	



POLLING QUESTION

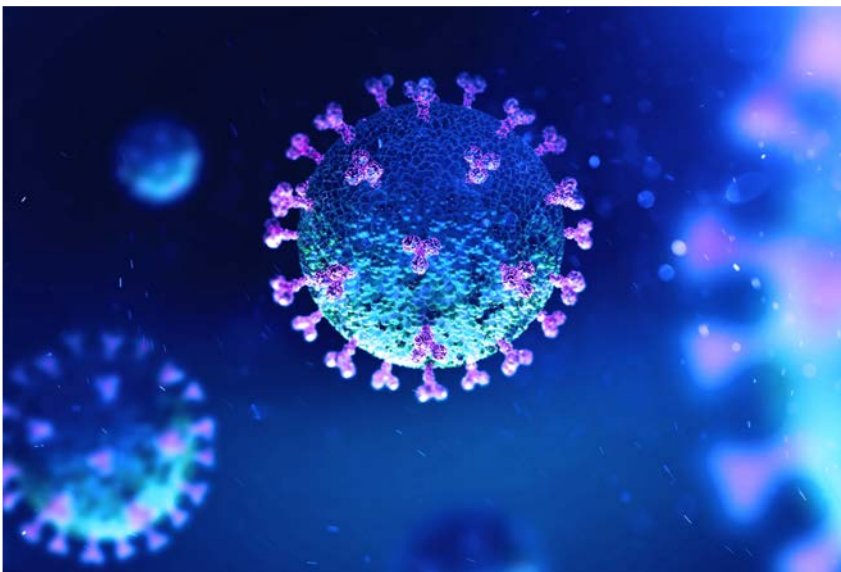
Which topic would you like to be covered during next month's Lunch & Learn webinar?

- A. Leases
- B. Estimate and Assumptions
- C. Going Concern and Subsequent Events

ICFR and Internal Controls

COVID-19

- Because of the impact of COVID-19, entities may need to implement new ICs or modify existing ones.
 - This consideration is from an operational, financial and compliance perspective.
- Consider how your organization has operated since the onset of the pandemic.
 - Did they move to remote work?
 - How did processes and procedures change?
 - How did that impact internal control procedures?
 - Consider all the technology issues during 2020. How did your company address these?
 - How were typical supervisory reviews and things like physical inventories handled?



Internal Controls

- Prior to the pandemic, management often took the position of “we can’t close the books remotely”.
 - How quickly things change!
- With this in mind, public entities must disclose in their quarterly or annual filings any changes in financial Cs that have materially affected, or are reasonably likely to materially affect, ICFR.
 - Surely, controls changed?
 - Did your company make any disclosures?



Internal Controls *(cont'd)*

- Businesses may have diverted some FR and IC effort toward operational matters.
 - Periods of uncertainty typically require more judgment, increased override or change of management controls, and can unintentionally create circumstances conducive to fraud.
- Management remains accountable and responsible for providing investors, regulators, and other stakeholders with relevant and timely information about operational and financial performance.
 - Consequently, internal controls are as, if not more, critical to instilling confidence in reliable financial reporting and disclosures.

Internal Controls *(cont'd)*



- Entities must consider the operating effectiveness of controls, including assessing any breakdown in review-type controls or the inability of individuals to perform control duties because of absences.
 - Remote work surely impacted many of these check and balance controls.
 - Reflect on what occurred in your organization and whether or not you are a public entity, how were all internal controls impacted and what mitigation procedures were put in place.

Internal Controls *(cont'd)*



- Consider the whole process of physical inventory?
 - How was this completed in 2020?
- Entities should also consider how a lack of information may affect management's ability to effectively operate controls.
 - Example: Personnel may not be available in affected areas to provide information that is essential to the effective operation of an internal control.

Internal Controls *(cont'd)*

- If an existing control cannot be performed, management should identify alternative designed controls to compensate for the lack of information and to potentially identify control deficiencies.
- Entities should also consider management's ability to complete its FR process and prepare its FS's on a timely basis.



Internal Controls *(cont'd)*

- Delays in closing the underlying financial records may increase the potential for error in the FS's and merit the use of new or modified controls to offset the increased risk of potential FS error.
- In addition, entities will need to ensure they have properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues arising from the pandemic.





POLLING QUESTION

For calendar year 2020, what percentage change did you see in your key controls over ICFR?

- A. None**
- B. Less than 10%**
- C. 11% - 30%**
- D. 31% - 50%**
- E. Greater than 50%**

Management Response to IC during COVID

- **Reassess the financial reporting timeline and relax timing constraints, where possible, on the operation of key controls.**
 - This may need to be part of the RA process to ensure key controls operate in the appropriate manner and time period.
 - Some controls may need to operate simultaneously rather than in traditional step-by-step processes.
- **Formally document where certain decisions have been made to provide temporary relief** — for example, changes in timelines or new responsibilities being granted, so that it can be evidenced within management ICFR testing programs.
- **Keep in mind that fraud risks may change in such a time of crisis.** Incentives for committing fraud may be heightened, especially if significant redundancies are likely to be required or employees suffer significant personal financial stress.

Management Response to IC during COVID *(cont'd)*

- **Ensure early and ongoing discussion with auditors, including FS and service auditors, to avoid surprises later in the year.**
 - Consider the accounting impact of the COVID-19 pandemic on key judgments, valuations and assumptions within financial statements.
- **Extensive prioritization is needed, and it may be appropriate to put existing business and control transformation plans on hold.**
 - Project management will be key, especially if there are other significant business needs that have taken priority.
 - Remediation projects will likely have to be reassessed and expectations discussed early with the auditors, including financial statement and service auditors.

Management Response to IC during COVID *(cont'd)*



- ICFR Impacts
 - Each organization's ICFR program will be uniquely impacted by COVID.
 - Organizations with increases in automation will have different challenges to address than those with a more manual control environment.
 - However, neither approach is free from potential pitfalls that may occur in the coming weeks and months.

Management Response to IC during COVID *(cont'd)*

- Considerations for ICFR:
 - Re-scope financial RA in light of COVID and consider COVID-19 principles.
 - Re-evaluate control designs.
 - Evaluation of the operating effectiveness of controls may need to include a plan for increased levels of remote testing.
 - Changes in workforce, remote working and in the business as a result of COVID-19 may increase control deficiencies.
 - Typical communication plans with senior management and board members may need to be revisited

Summary

- Ongoing review of your organization's internal control environment is imperative to managing financial reporting risk for all reporting periods.





POLLING QUESTION

Would you like additional resources to help manage your risk by receiving a free trial to CCH ARM?

- A. Yes, sign me up!
- B. No, I already have a CCH ARM subscription
- C. No, I'm not interested

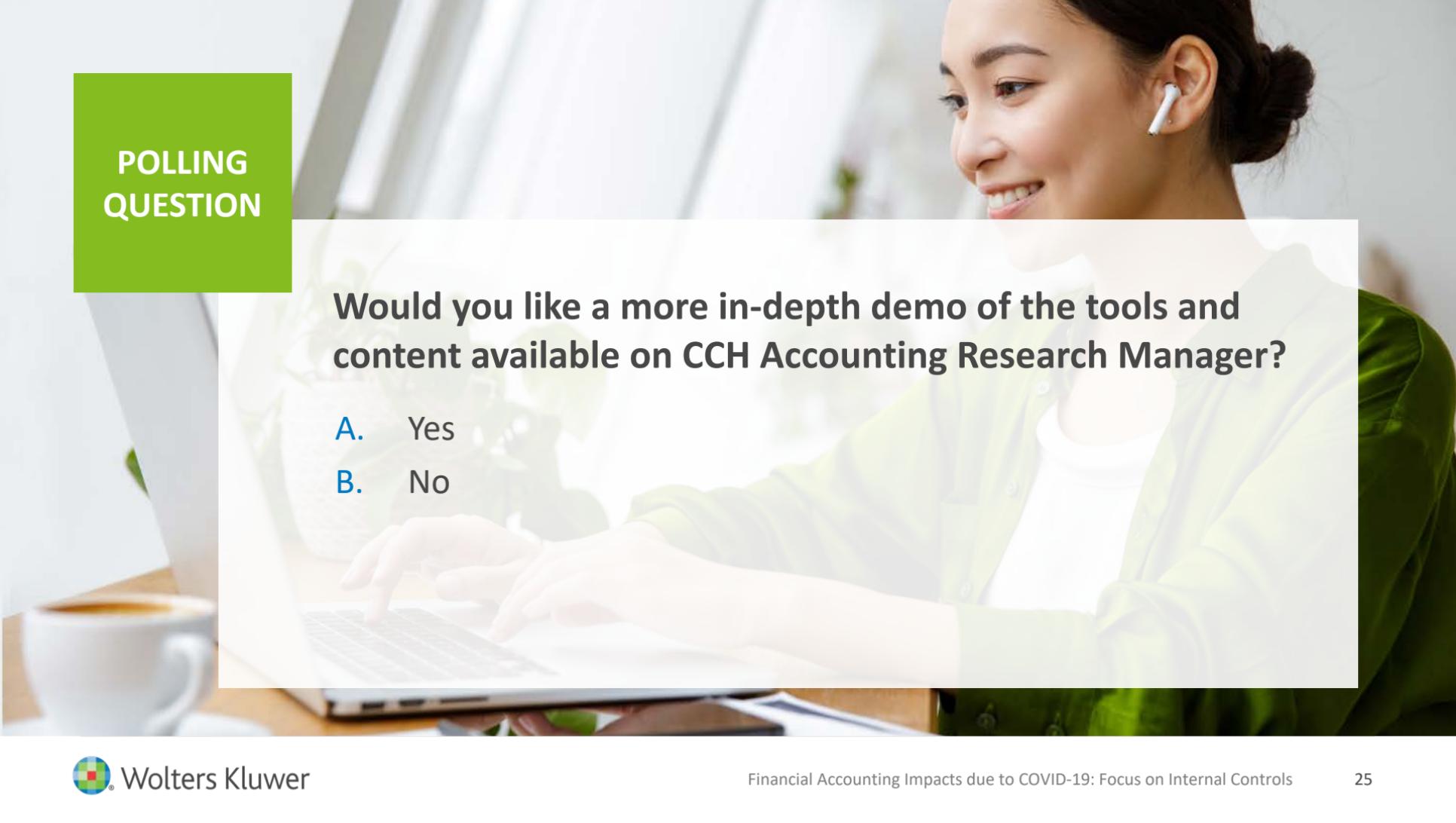
Additional Answers in
CCH[®] Accounting Research Manager[®]
Beth Patrick, Wolters Kluwer

Beth Patrick



Beth Patrick is a Sales & Business Development Manager at Wolters Kluwer and has over 20 years' experience serving Accounting Professionals. She works with both CPA firms and Corporations sharing best practices to ensure they are utilizing CCH Accounting Research Manager to its fullest.

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**POLLING
QUESTION**

Would you like a more in-depth demo of the tools and content available on CCH Accounting Research Manager?

- A. Yes
- B. No

Thank you for attending

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