Dan Goelzer

AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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This Update summarizes recent developments relating to public company audit committees and their oversight of financial reporting and of the company's relationship with its auditor.

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SEC Provides Public Companies with COVID-19 Filing Deadline Relief and Guidance on the Financial Reporting Effects of the Virus

As companies struggle with the unprecedented uncertainties and disruptions of the COVID-19 pandemic, the SEC has taken steps to assist public companies in complying with their reporting and disclosure obligations.

Exemptions from the Reporting and Proxy Delivery Requirements

The SEC has issued two orders that together have the effect of extending for 45 days the deadline for most public company filings due between March 1 and July 1. Companies that wish to take advantage of this relief must comply with certain conditions.

On March 4, 2020, the SEC issued an order exempting public companies from various filing requirements under the Securities Exchange Act. The Commission recognizes that COVID-19 "may present challenges" to timely compliance with obligations under the federal securities laws. Accordingly, the order exempted public companies from the periodic reporting, proxy, and certain other filing requirements for filings due between March 1, 2020 to April 30, 2020. The exemption is not automatic. The person or company required to make the filing that will be delayed must file a Form 8-K with the Commission by the later of March 16 or the original filing deadline. The Form 8-K must include:

Dan Goelzer is a retired partner of a major global law firm. He is a member of the Sustainability Accounting Standards Board and advises a Big Four accounting firm on audit quality issues. From 2002 to 2012, he was a member of the Public Company Accounting Oversight Board and served as Acting PCAOB Chair from August 2009 through January 2011. From 1983 to 1990, he was General Counsel of the Securities and Exchange Commission.

(1) a statement that the filer is relying on the Commission's exemption order;

(2) a brief description of the reasons why it could not file such report, schedule or form on a timely basis;

(3) the estimated date by which the report, schedule, or form is expected to be filed;

(4) if appropriate, a risk factor explaining, if material, the impact of COVID-19 on the company's business; and

(5) if the reason the report cannot be filed on time is the inability of any person (e.g., the company's auditor) to furnish any required opinion, report or certification, a statement signed by such person stating the specific reasons why such person is unable to furnish the required opinion, report or certification by the original filing deadline.

The delayed filing must be filed no later than 45 days after its original due date.

The March 4 order also provides relief under specified conditions from the obligation to deliver proxy materials to shareholders. The proxy material delivery relief only applies to shareholders that have "a mailing address located in an area where, as a result of COVID-19, the common carrier has suspended delivery service of the type or class customarily used by the registrant or other person making the solicitation."

On March 25, the SEC issued a superseding order that extended the relief granted on March 4 to filings due on or before July 1, 2020. The new order states that the Commission "intends to monitor the current situation and may, if necessary, extend the time period during which this relief applies, with any additional conditions the Commission deems appropriate and/or issue other relief."

Staff Disclosure Guidance

Also on March 25, the SEC's Division of Corporation Finance issued Disclosure Guidance Topic No. 9, which provides staff views on disclosure and other securities law issues arising from COVID-19 and related business and market disruptions. Some of the points in this guidance include:

- The "effects COVID-19 has had on a company, what management expects its future impact will be, how management is responding to evolving events, and how it is planning for COVID-19-related uncertainties can be material to investment and voting decisions."

- Disclosure of the risks presented by the pandemic and the effects on the company "may be necessary or appropriate in management's discussion and analysis, the business section, risk factors, legal proceedings, disclosure controls and procedures, internal control over financial reporting, and the financial statements."

- "Assessing the evolving effects of COVID-19 and related risks will be a facts and circumstances analysis. Disclosure about these risks and effects, including how the company and management are responding to them, should be specific to a company's situation." The staff guidance includes a detailed, but non-exhaustive, list of specific questions that companies should consider in determining their disclosure obligations with respect to the impact of COVID-19 on their operations.

- COVID-19 disclosures will involve forward looking information and may be based on assumptions and expectations regarding future events. Companies should be mindful of the safe harbors provided in the securities laws for forward looking information.

- Companies and their insiders should bear in mind the prohibitions against insider trading. "For example, where COVID-19 has affected a company in a way that would be material to investors or where a company has become aware of a risk related to COVID-19 that would be material to

investors, the company, its directors and officers, and other corporate insiders who are aware of these matters should refrain from trading in the company's securities until such information is disclosed to the public."

- Companies should also bear in mind the prohibitions against selective disclosure of material information. Further, "[d]epending on a company's particular circumstances, it should consider whether it may need to revisit, refresh, or update previous disclosure to the extent that the information becomes materially inaccurate."

- If a company discloses a non-GAAP financial measure or performance metric to adjust for or explain the impact of COVID-19, "it would be appropriate to highlight why management finds the measure or metric useful and how it helps investors assess the impact of COVID-19 on the company's financial position and results of operations." Where GAAP financial measures are not available for COVID-19 related reasons, the staff will not object if a non-GAAP financial measure is reconciled to preliminary or estimated GAAP measures.

Staff Shareholder Meeting Guidance

On March 13, the staffs of the SEC's Division of Corporation Finance and Division of Investment Management issued Staff Guidance for Conducting Annual Meetings in Light of COVID-19 Concerns. This guidance addresses three topics.

- How companies may change the date, time or location of a previously announced annual meeting without mailing additional proxy materials or amending existing proxy materials.

- Virtual shareholder meetings and how companies should notify shareholders, intermediaries, and other market participants of plans to hold a meeting virtually without amending or remailing proxy materials that previously announced an in-person meeting.

- Difficulties that shareholder proposal proponents may encounter in attending annual meetings to present their proposals. (The SEC's shareholder proposal rule provides that, if the proponent of a proposal fails to appear and present the proposal at the annual meeting "without good cause", the company may exclude future proposals from that proponent for two years. The staff encourages companies to allow proponents to appear by other means, such as by telephone and indicates that inability to travel or other hardships related to COVID-19 will be consider "good cause".)

Comment: While all these SEC actions are significant, audit committees may want to focus particularly on the list of specific questions in the staff disclosure guidance that companies should consider in determining their disclosure obligations with respect to the impact of Covid-19. For most public companies, the pandemic and its economic fallout will result in a host of difficult financial reporting and disclosure issues that were unanticipated as recently as last month. Audit committees will be called on to exercise oversight and provide input into how these issues should be resolved. See What's on the Audit Committee's Agenda in 2020? Part II: COVID-19 in this Update for a discussion accounting firm advice regarding these reporting and disclosure challenges.

In addition, audit committee members, like all officer and directors, should be extremely cautious during the crisis about making any decisions to trade in the securities of their company or of other companies with which it has business relationships. As suggested in the staff guidance, the SEC is likely to be aggressive in its insider trading enforcement in the current environment.

SEC Exempts More Small Companies from ICFR Audits

On March 12, the Securities and Exchange Commission adopted amendments to the definitions of the terms "accelerated filer" and "large accelerated filer". The effect of these amendments is to exclude certain smaller public companies from accelerated filer status. As a result, these companies will no longer be required to

obtain an auditor's report on the effectiveness of their internal control over financial reporting (ICFR) and will have additional time in which to file annual and periodic reports with the SEC.

The Commission's rules implementing the Sarbanes-Oxley Act require accelerated filers (except emerging growth companies) to obtain a report from their external auditor attesting to the effectiveness of the company's ICFR. Prior to the new amendments, SEC-registered companies with a public float of $75 million or more were deemed to be accelerated filers; companies with a public float of $700 million or more were large accelerated filers; and companies with a public float of less than $75 were non-accelerated filers. (Public float is the aggregate worldwide market value of common equity -- voting and non-voting -- held by nonaffiliates of the company.) Non-accelerated filers have additional time after the end of a fiscal year or quarter to file their annual and quarterly reports with the SEC—that is, their filing deadline is not "accelerated"—and are not required to obtain auditor attestation on the effectiveness of their ICFR.

In addition to the accelerated/nonaccelerated filer distinction, the SEC has somewhat less onerous, scaled, disclosure requirements for companies that qualify as smaller reporting companies (SRCs). The SRC definition has both revenue and public float criteria. Prior to the amendments, some companies qualified as SRCs based on their limited revenue but were nonetheless accelerated filers because their public float exceeded $75 million.

The new amendments exclude SRCs that have annual revenue of less than $100 million in their most recent fiscal year from the accelerated filer definition. Accordingly, some SRCs that are currently accelerated fillers – and currently required to obtain their auditor's opinion on their ICFR-- will become nonaccelerated filers and will be relieved from the ICFR auditor attestation requirement. The following table, which appears in the SEC release adopting the amendments, describes the new relationship between SRC status and accelerated filer status:

Relationships between SRCs and Non-Accelerated, Accelerated, and Large Accelerated Filers under the Final Amendments		
Status	**Public Float**	**Annual Revenues**
SRC and Non-Accelerated Filer	Less than $75 million	N/A
	$75 million to less than $700 million	Less than $100 million
SRC and Accelerated Filer	$75 million to less than $250 million	$100 million or more
Accelerated Filer (not SRC)	$250 million to less than $700 million	$100 million or more
Large Accelerated Filer (not SRC)	$700 million or more	N/A

The amendments also raise the public float thresholds at which companies can exit accelerated filer status. The threshold for accelerated filers to become a non-accelerated will increase from $50 million to $60 million. Therefore, if an accelerated filer's public float dips to $60 million on the relevant measurement date, if may

become a nonaccelerated filer in the following fiscal year. The threshold for exiting large accelerated filer status will rise from $500 million to $560 million.

While non-accelerated filers are relieved of the ICFR auditor attestation requirement, other aspects of the Sarbanes-Oxley Act and related SEC rules will still apply to these companies. As noted in the SEC's press release announcing the amendments, SRCs that are not accelerated filers "will continue to be required to establish and maintain effective internal control over financial reporting (ICFR). Their principal executive and financial officers must continue to certify that, among other things, they are responsible for establishing and maintaining ICFR and have evaluated and reported on the effectiveness of the company's disclosure controls and procedures. In addition, these smaller companies will continue to be subject to a financial statement audit by an independent auditor, who is required to consider ICFR in the performance of that audit."

Comment: Managements and audit committees of companies that are affected by these amendments (e.g., SRCs that are currently accelerated filers, but have less than $100 million in annual revenue) will have a decision to make. While these companies will no longer be required to obtain an ICFR audit, they are of course free to continue to do so. Such companies should, in consultation with their auditor, analyze the audit cost savings (if any) of discontinuing the ICFR opinion. These costs need to be weighed against the audit restart costs if revenue exceeds $100 million in the future. Discontinuing the ICFR audit may also impact investor confidence in the company's financial reporting and potentially increase the cost of capital. In many cases, exiting ICFR auditing may not be a cost-effective decision.

Another factor that audit committees should bear in mind in the current environment is the timing of the public float determination. Whether a company meets the accelerated filer float test during a given year is measured on the last business day of the second quarter of the prior fiscal year. For a calendar year company, 2021 filer status will depend on the company's public float as of June 30, 2020. Given market conditions, it is possible that some companies that are currently accelerated filers may see their float on June 30 fall below the new $60 million threshold for exciting accelerated filer status. If the decline in public float appears the be a temporary reaction to the COVID-19 crisis, consideration will need to be given, for the reasons above, to whether it is prudent to discontinue ICFR auditing in 2021.

Internal Auditors Are Missing Key Risks

The Institute of Internal Auditors (IIA) has released its annual survey of Chief Audit Executives (CAEs). According to the IIA's press release, the 2020 North American Pulse of Internal Audit, "reveals serious gaps in internal audit's coverage, with audit plans deficient in key risk areas, including:

- Almost one-third of respondents did not include cybersecurity/information technology in their audit plans.
- More than half did not include governance/culture or third-party relationships.
- Ninety percent did not include sustainability."

The 2020 pulse survey report is based on an online survey of 541 CAEs and 89 directors/senior managers conducted by the IIA during 2019. The results are discussed under four headings:

1. Audit Plans Missing Key Risks

Many internal audit functions allocate no portion of their audit plans to certain key risks, such as third-party services, governance and culture, cybersecurity, and sustainability. Ninety percent of survey respondents do not plan to devote any part of their audit plan for the next 12 months to sustainability; 52 percent report no resources allocated to auditing third-party relationships; and 55 percent do not plan to assess governance and culture. Perhaps the most surprising finding is that nearly one-third (32 percent) of those surveyed do not expect to allocate any internal audit resources to cybersecurity, despite the fact that cybersecurity is

frequently reported to be the risk of greatest concern to boards and managements. Public company CAEs are somewhat more likely to focus on cybersecurity. While 77 percent of respondents whose organizations comply with the Sarbanes-Oxley Act include cybersecurity in their audit plans, only 60 percent of non-SOX compliant organizations do.

2. Too Many Functions Performing at Lower Levels

Respondents were asked to rate the maturity of their internal audit function based on model developed by the IIA's Dutch counterpart. While 52 percent ranked their maturity at level 4 or 5 – the highest tiers of maturity – 20 percent thought their internal audit function fell into one of the two lowest tiers, meaning that the function is below the level where the internal audit function conforms to IIA Standards.

3. Internal Audit Leadership Is Changing

The percentage of women in internal audit leadership grew from 33 percent of respondents in 2017 to 40 percent in 2020. At public companies, 32 percent of respondents were women. As in all fields, a generational shift is occurring in internal audit leadership. Fifty-four percent of survey respondents are from Generation X (39 to 54 years old), 10 percent are Millennials (23 to 38 years old), and 36 percent are Baby Boomers (55 to 73 years old). AT public companies, 60 percent of CAEs are from Gen X.

4. Metrics for Internal Audit Leaders

The report also includes various benchmarking metrics on audit planning and risk assessment, staffing, and other issues. Some of the key findings for public and private company respondents are:

- Seventy-one percent of public company respondents assessed cyber as a high/very high risk. Other top risks were IT (49 percent) and third-party relationships (48 percent). The lowest reported risks were financial (excluding ICFR) (13 percent), sustainability (7 percent), and support for external audit (2 percent).

- In 2020, public companies (excluding financial services companies), plan to devote 32.8 percent of their internal audit plans to financial reporting (including ICFR), 14.7 percent to operational issues, and 8.4 percent to compliance/regulatory risks (excluding ICFR). The four top risks on the risk ratings list – cybersecurity, ERM, IT, and third-party relationships – together comprise only 23.2 percent of 2020 audit plans.

- For private companies, 55 percent of respondents assessed IT risk as high or very high risk, followed by compliance/regulatory risk (excluding ICFR) at 48 percent and third-party relationships at 40 percent. The lowest reported risks at private companies were financial, excluding ICFR (15 percent), sustainability (4 percent), and support for external audit (0 percent).

- Private companies plan to devote 18.2 percent of their internal audit effort to compliance/regulatory risks (excluding ICFR), 16.8 percent to operational issues, and 12.3 percent to financial reporting (including ICFR).

- Thirty-six percent of publicly traded companies and 22 percent of private companies increased their internal audit staffing last year.

Most CAEs report functionally to the audit committee (or full board or equivalent). Functional reporting is defined as "oversight of the responsibilities of the internal audit function, including approval of the internal audit charter, approval of the audit plan, evaluation of the CAE, compensation." At 90 percent of public companies and at 69 percent of private companies functional reporting is to the audit committee, board, or equivalent. However, for administrative purposes, 77 percent of public company CAEs and 55 percent of private company CAEs report to the CFO. Administrative reporting refers to "oversight of day-to-day matters, expense approval, human resource administration, communication, internal policies and

procedures." Only 8 percent of public company CAEs and 13 percent of private company CAEs report administratively to the audit committee, board, or equivalent.

Comment: As noted last year in The IAA Says Boards Are Overlooking an Important Source of Risk Information – Internal Audit, March 2019 Update, the annual IIA survey provides useful insight into CAE perspectives on risk. Audit committees may find this data helpful in evaluating the resources and activities of their company's internal audit function. Audit committees should consider whether the internal audit staff's plans for the coming year match the committee's view of risk. For example, the survey finding that almost one-third of internal audit plans do not allocate any resources to cybersecurity suggests that mismatches between board/audit committee priorities and those of internal audit may not be uncommon.

What's on the Audit Committee's Agenda in 2020? Part II: COVID-19

What's on the Audit Committee's Agenda in 2020? Part I, in the January-February 2020 Update, included a summary of suggested 2020 audit committee agenda items from Protiviti and KPMG. That item also indicated that the views of other firms concerning issues on which audit committees should focus in 2020 would be included in the next Update. However, during the past month, COVID-19 has radically altered public company priorities and challenges. Accordingly, rather than address pre-pandemic audit committee agenda suggestions, summarized below are the views of three large accounting firms on financial reporting issues that companies – and therefore audit committees -- will face in the new environment.

Deloitte: Financial Reporting Considerations Related to COVID-19 and an Economic Downturn

In Financial Reporting Considerations Related to COVID-19 and an Economic Downturn (March 25, 2020), Deloitte discusses key accounting and financial reporting considerations related to economic conditions that may result from the COVID-19 pandemic. Deloitte's comprehensive 64-page analysis includes the following sections:

- Select SEC and PCAOB Announcements Related to COVID-19
- SEC Reporting and Disclosure Considerations
- Broad Financial Reporting and Accounting Considerations
- Internal Control Considerations
- Financial Reporting Under ASC 852 for Entities in Reorganization Under the Bankruptcy Code

The paper also includes an appendix with industry-specific insights for 11 sectors. Another index discusses considerations for entities that report under the international financial reporting standards. The executive summary discusses six accounting and reporting issues that "will be the most pervasive and challenging as a result of the pandemic's impact." Deloitte's comments on these issues are summarized below.

1. Preparation of forward-looking cash-flow estimates. "Unique complexities" in preparing forward-looking information include: (1) There is an extremely wide range of possible outcomes. (2) The associated economic impact of the pandemic is highly dependent on variables that are difficult to predict. (3) Each entity must then translate the effect of those macro conditions into estimates of its own future cash flows.

2. Recoverability and impairment of assets. The challenges associated forward-looking information are especially acute in the case of impairment testing for long-lived assets, intangibles, and goodwill, since recoverability and impairment models rely on cash flow projections that are subject to significant uncertainties. To complicate matters, impairment determinations are not reversible. "Good-faith estimates in the current reporting period could result in material recorded impairments; if

unforeseen favorable developments occur in subsequent quarters, the recognized impairment would no longer be indicated, but it cannot be reversed."

3. Accounting for financial assets. There have been severe declines in the fair value of many financial assets, and the ability of debtors to comply with loan terms has been adversely affected. "Entities will need to carefully consider and apply the appropriate impairment and loss recognition guidance."

4. Contract modifications. The economic effects of the pandemic may cause renegotiation of existing contracts, such as "contracts with customers, compensation arrangements with employees, leases, and the terms of many financial assets and liabilities." Contract changes have accounting implications that need to be considered.

5. Subsequent events. Subsequent event disclosure in financial statements depends on whether the event was recognized or unrecognized at the reporting date. "For entities whose balance sheet date is in February or before, we believe that much of what is known about events related to COVID-19 as of the date of this publication for U.S. operations would be viewed as an unrecognized rather than recognized event (i.e., the information did not reflect conditions as of the balance sheet date)." However, significant events with potential financial statement impacts occurred during March 2020, such as "shelter in place" orders, a precipitous drop in equity markets, and restrictions on travel. "As the global landscape evolves, entities are encouraged to remain vigilant, document the nature and timing of events, and consult with their accounting advisers."

6. Going concern. Companies will need to consider whether they can continue as a going concern during the year after the date on which the interim or annual financial statements are issued. The initial assessment requires consideration of, among other things, "(1) the extent of operational disruption, (2) potential diminished demand for products or services, (3) contractual obligations due or anticipated within one year, (4) potential liquidity and working capital shortfalls, and (5) access to existing sources of capital (e.g., available line of credit)." If substantial doubt exists as to whether the company can continue, such doubt may be able alleviated if it is probable that management's mitigation plans will be effectively implemented. Companies must provide disclosure in annual and interim financial statements when conditions are identified that raise substantial going concern doubt, even when management's plans alleviate such doubt.

PwC: Responding to COVID-19: Considerations for corporate boards and Q1 2020 Audit committee newsletter: Helping you prepare for your next meeting

PwC's Responding to COVID-19: Considerations for corporate boards (March 20, 2020) states that boards "need to be proactive and agile, and they need to respond with strong leadership." Accordingly, boards "will want to immediately consider" four broad issues, one of which is financial reporting.

1. Business. PwC's discussion of business implications focuses on employee well-being; impact on strategy; "transactions, opportunism and activism vulnerability" (e.g., the risk the activists will take advantage of lower share prices to acquire stakes in companies), share repurchases and dividends, supply chain, and liquidity.

2. Tax policy and Washington. "Companies should be prepared to engage with policymakers to ensure that issues and proposals affecting their business operations and employees are carefully considered."

3. Financial reporting.

    - Financial reporting operations. "Audit committees should be aware of potential workforce issues, both domestically and internationally, and the company's ability to meet original or modified deadlines. Ensuring that internal controls are still functioning effectively, even if only virtually, should be a continual focus."

- Check in with internal and external auditors and other significant third-party service providers. "Audit committees will want to ensure that internal and external auditors, and other significant third-party service providers, have a plan to continue working virtually during this time. They will want to be aware of global considerations, such as the location of centralized service centers and the efforts needed from significant component audit teams."

- Earnings guidance. Some companies have already found it necessary to modify or withdraw earnings guidance and other projections. Even if full details are not available, timely communication of any material matters is critical. "Audit committees need to focus on making sure that conclusions are balanced and based on appropriate assumptions."

- Judgments and estimates. Judgments and estimates related to reserves, liquidity and potential impairments will be challenging in the current, uncertain and rapidly changing environment.

- Revenue recognition. The impact of the crisis on customers may require companies to adjust reserves on outstanding receivables. Similarly, companies need to bear in mind that revenue can only be recognized for new sales if payment is probable. Also, changes in business practices that impact "guarantees, side letters or other agreements" may have accounting implications.

- Debt. Companies may need to seek additional financing or to amend the terms of existing debt agreements. Such modifications will need to be analyzed to determine the accounting implications. Additionally, changes in credit arrangements may trigger disclosure obligations.

- Disclosure. Companies should consider disclosure of new risks and uncertainties arising from the crisis. In addition, companies should evaluate whether events after the date of the financial statements have occurred that require disclosure in such statements.

- Internal control testing. Controls can become ineffective if employees on which a control relies are unavailable or unable to meet their responsibilities. Further, "travel bans and the ability to only work virtually may cause revisions to the control procedures or to testing plans or schedules."

- Human capital and executive compensation. COVID-19 may trigger events that result in changes to incentive compensation plans. Such changes may in turn have accounting implications.

4. Governance. The format of both board meetings and annual shareholders meetings may be affected by COVID-19. Boards should also plan for the emergency temporary replacement of company leaders who become ill. In addition, "boards will want to ensure that they remain focused on tone at the top and corporate culture."

In a second publication, Q1 2020 Audit committee newsletter: Helping you prepare for your next meeting, PwC adds some points aimed specifically at audit committees. "Audit committees should be aware of potential workforce issues, both domestically and internationally, and the company's ability to meet original or modified deadlines. And, audit committees should consider discussing with management the effective functioning of internal controls in a virtual environment. As the uncertain global risk environment continues to evolve, companies should assess the impact of these risks and developments on their accounting and reporting." PwC cites the following as significant areas for audit committee consideration:

- Impairment considerations (e.g., inventories, long-lived assets, intangibles and goodwill).

- Credit risk for customers impacted by coronavirus outbreaks.

- Business interruption and other insurance recoveries.

- Impact of foreign currency volatility on earnings.
- Income tax matters.
- Disclosure requirements, including in the risk factors and MD&A sections of filings.
- Other matters such as impacts to hedge accounting, restructuring and debt covenant compliance.

EY: Five Financial Reporting Issues to Consider as a Consequence of COVID-19

In Five Financial Reporting Issues to Consider as a Consequence of COVID-19 (March 23, 2020) , EY acknowledges that "the impact on financial reporting may not be the first thing that comes to mind as a consequence of the outbreak." Nonetheless, "there is an important and challenging role here for preparers of financial statements, audit committees and auditors." EY discusses five priority issues:

1. Going concern and liquidity. Management will need to consider the existing and anticipated effects of the coronavirus outbreak on its assessment of the company's ability to continue as a going concern. Material uncertainties that cast doubt on the company's ability to operate on a going concern basis must be disclosed.

2. Impairment assessment. For each reporting period, companies must assess whether nonfinancial assets are impaired—that is, whether the company can recover the asset's carrying value, either by using it or selling it. "The adverse impact on companies caused by measures to stop the spread of the disease, such as temporary manufacturing plant closures and travel and import/export restrictions, can be considered an impairment indicator."

3. Contract modifications. Companies "may need to obtain additional financing, amend the terms of debt agreements or obtain waivers if they no longer satisfy debt covenants. In such cases, they will need to consider whether any changes to existing contractual arrangements represent a substantial modification or potentially a contract extinguishment."

4. Fair value measurement. "When making assessments and judgments for measuring fair value, the company should consider the conditions and corresponding assumptions that were known or knowable to market participants" at the valuation date. The impact of COVID-19 on fair value measurement "would depend on the evaluation of whether the severity of the outbreak at the reporting date would have impacted participants' valuation assumptions at that time."

5. Government assistance and income tax. Government actions may include "direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, reduction of public levies, rental reductions or deferrals and low-interest loans." Such measures will have an impact on financial reporting and may fall within the scope of the standards on income tax, on government grants, on leases or on financial instruments.

Comment: Clearly, the issues with which audit committees will be grappling for the balance of 2020, and perhaps beyond, have changed significantly in the past month. The medical and economic situations are rapidly evolving, and new publications from accounting, consulting, and law firms concerning the challenges companies face and how they should respond are appearing daily. While the pandemic is first and foremost a public health and human tragedy crisis, audit committees need to stay focused on their company's obligation to provide material information to shareholders and the public markets. As EY notes: "[T]imely and meaningful disclosures about the potential effect on the financial position, performance and viability of the company, as well as measures taken to manage the risks, are important to regain trust. Financial reporting can play an important part in the communication between companies and their stakeholders in this turbulent period."

The Audit Blog

I am a co-founder of The Audit Blog and blog on developments in auditing and financial reporting, on auditor oversight and regulation, and on sustainability disclosure. Occasionally, items that appear in the Audit Committee and Auditor Oversight Update also appear on the blog. The blog is available here. You can follow it @BlogAuditor on twitter or @the-audit-blog on medium.com.

For further information, please contact:

Daniel L. Goelzer
301.494.4551
dangoelzer@gmail.com

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Prior Updates issued after January 1, 2019 are available here.