

How to handle a private company financial close remotely

April 2020

The rapidly changing circumstances require finance leaders to look for new ways to approach financial close

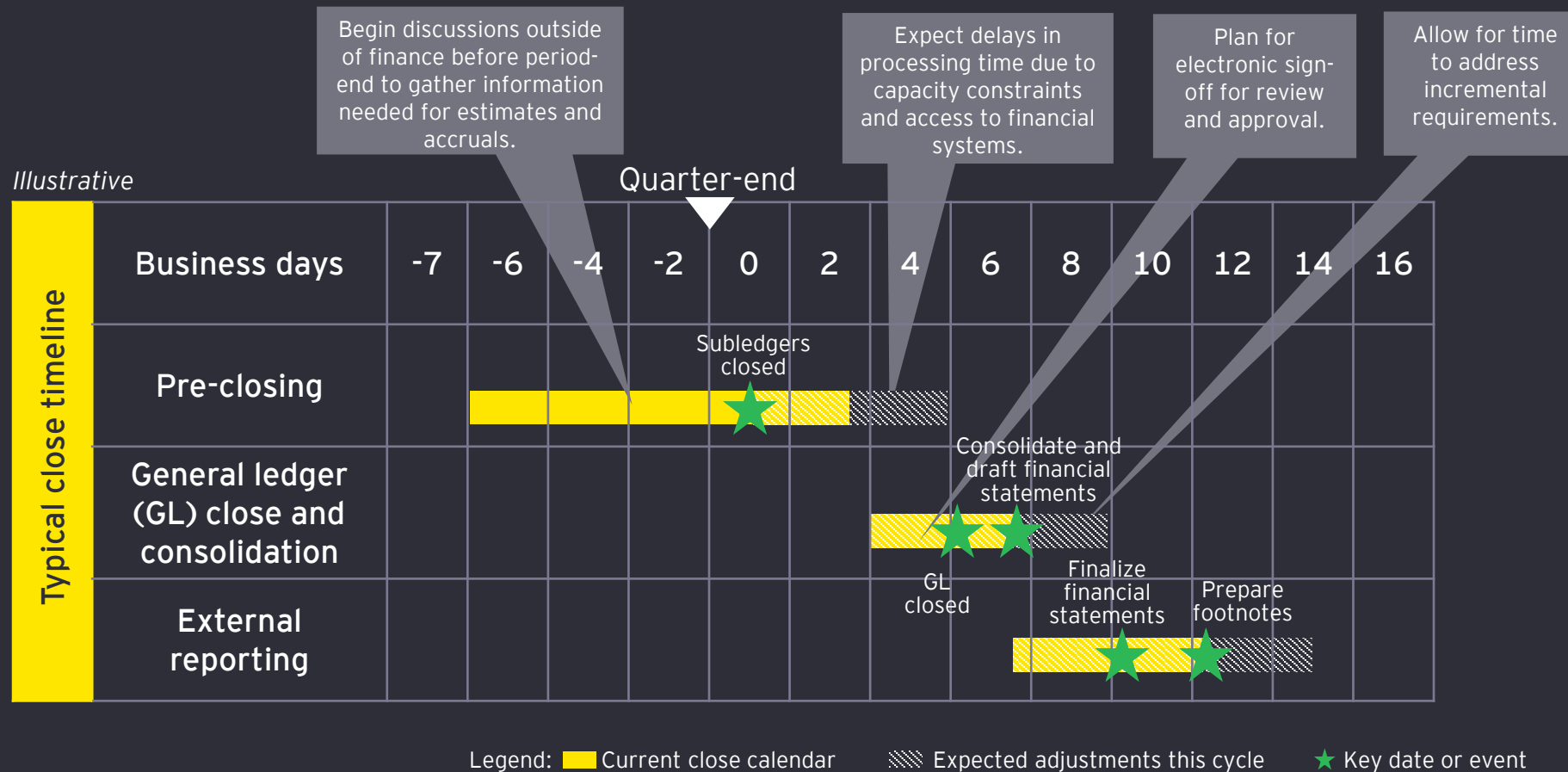
New challenges are converging on companies as they prepare for the upcoming month and quarter-end close.

- ▶ Close activities will likely experience delays due to an all-remote workforce, leading to increased reliance on technology.
- ▶ Abrupt changes in the economy will likely drive different requirements and additional analysis for close.
- ▶ Business interruptions may result in incomplete information from upstream operational activities and external providers.
- ▶ Transmission of sensitive data for remote close and external audit will require increased cybersecurity.

Finance leaders should act now to stress-test their close process and prevent delays or misstatements in financial reporting.

- ▶ Establish a virtual close command center – prepare to deal with accounting, tax, information technology (IT), the board of directors and other cross-functional issues in real time.
- ▶ Replan your close procedures – adjust calendars and add in a close dry run. Consider estimates and materiality changes to expedite where possible.
- ▶ Anticipate deep-dive requirements – identify where incremental effort is required to validate accounts in the current environment. Be prepared to tell your board what you plan to do about key risk areas. Coordinate with your auditors closely for a remote process.

Replan your period-end close process now



Complexity of the business environment requires finance leaders to act now and to plan for a remote close in order to prevent delays or misstatements in financial reporting.

Significant risks to your period-end close and financial reporting processes

1

Close activities will likely take longer with a **remote workforce**

- ▶ Impacts to employees, such as absences, may create **capacity constraints** and potential **knowledge gaps**.
- ▶ Availability of **third-party data** (i.e., from vendors and outsource providers) may be reduced or delayed.
- ▶ Access to **critical financial systems and data** may be limited (including feeder systems).
- ▶ Timelines for **executive and board review** (as applicable) may be condensed.

2

Changes to the macroeconomic environment will likely drive **incremental requirements**

- ▶ Supply chain disruption can result in **less predictable inventory movements** and increased **obsolescence**.
- ▶ Decreases in your customers' ability to pay may contribute to change in trade receivable **collectability and credit losses**.
- ▶ Declines in revenue, cash positions and business closures can trigger **asset impairment** and evaluation of **going concern**.
- ▶ Companies may need to evaluate the need for **restructuring accruals** due to labor force reductions.
- ▶ **Revenue recognition** might change based on changes in estimates of variable consideration or modifications made to customer contracts.

3

Inadequate information exists to support accounting judgments and earnings guidance

- ▶ Changes to your **disclosures of material risks** to your business and operations may be required as a result of the current macroeconomic environment.
- ▶ **Scenario modeling** for working capital and earnings forecast are likely required.
- ▶ **Non-electronic data** or paper records that are critical to the period-end close process may not be accessible.

4

Lack of updated **effective controls** for remote close and reporting

- ▶ Interim process changes may require **new or different internal controls** to mitigate risk.
- ▶ **New ways of working** will likely need to be properly controlled and evidenced to avoid internal control deficiencies.
- ▶ Changes in responsibilities may result in **segregation of duties conflicts**.
- ▶ Hypercare support may impact effectiveness of **access and change management controls**.

Business disruption will likely drive complexity in technical accounting considerations

Impairment

- ▶ Current conditions may require **goodwill, equity investments and other assets** to be tested for impairment.
- ▶ Declines in revenue, supply chain disruptions and business closures can be **indicators of impairment**.
- ▶ You may need to update **estimates of future cash flows**.

Tax considerations

- ▶ Forecasts used to estimate annual **effective tax rate (ETR)** may be updated with greater frequency.
- ▶ **The ETR for the year-to-year period** may be the best estimate.
- ▶ Companies may find changes to the estimates used to assess **realizability of deferred tax assets**.

Going concern

- ▶ Evaluate your **ability to continue as a going concern** for **one year**.
- ▶ Consider the **effects of the outbreak** and **depressed commodities prices** (if relevant).
- ▶ Management may need assess **debt covenants and provisions** and update the **cash flow projections**.

While these accounting considerations may not be relevant for all private companies at this time, they should be considered if applicable.

Companies will likely require rapid forecasting, leveraging data analytics to capture impacts of the current environment on cash flow projections.

The impact on the close process will be different by company; finance function leaders should consider their situation holistically

Strategic



- ▶ How is the crisis expected to impact your **business forecast** in the remainder of the fiscal year?
- ▶ How is **liquidity** impacting your financial statements?
- ▶ How is the crisis impacting **repatriation plans** and related tax and financial reporting implications?
- ▶ How are you ensuring that enacted **tax law changes** are recognized in the reporting period?
- ▶ What level of **people or process redundancy** does your finance function have?
- ▶ What **estimates** are made during month-end and which can be modeled with reasonable accuracy?
- ▶ Should **financial models** be updated or rebuilt to be used in the current environment?
- ▶ What **manual processes and controls** do you run and which are at increased risk in a remote workforce environment?
- ▶ How will changes in processes be communicated to **update control documentation** and testing?
- ▶ What is the approach for capturing and **communicating key decisions and changes** to close process?
- ▶ What systems are not available via **remote access** or have highly limited access controls?
- ▶ What **system support** resources will be available during the close process?
- ▶ How will **review and audit committee** meetings work in this environment?

Tactical



Finance leaders should consider immediate changes for this period-end close process

Virtual command and communication center

- ▶ Set up a **virtual command center** and include a **dedicated systems support resource** to help rapidly respond to connectivity issues
- ▶ Identify critical resources and analyze your close checklist for **single points of failure**
- ▶ Establish a **coverage plan** in cases of capacity constraints or illness, being mindful of segregation of duty requirements
- ▶ **Use a risk-based approach** to identify required analysis given the current economic environment
- ▶ **Re-sequence your close calendar** to take into account likely delays in normal close activities:
 - ▶ Identify and close certain accounts prior to month-end
 - ▶ Perform close workday assessment to identify process delays and bottlenecks
 - ▶ Perform a **close cycle dry run** or desktop exercise to test readiness
 - ▶ Anticipate review logistics and data requirements
- ▶ Ensure virtual private network (VPN) **capacity and system access** and align with information security to enable remote access
- ▶ Confirm upstream data and activities with other **functions, vendors, banks and business process outsourcing (BPO) providers**
- ▶ Consider opportunities to **shorten close activities**:
 - ▶ Shift non-key accounts into non-quarter-end months
 - ▶ Use estimates for accruals and create templates
 - ▶ Implement new **materiality thresholds** for non-key account reconciliations
 - ▶ Increase approval limits for close adjustments
- ▶ **Involve financial planning and analysis (FP&A) early** in the close to help clean data and provide estimates (e.g., allocations, revenue sharing)
- ▶ Support FP&A, treasury and business leaders with more **frequent updates**
- ▶ Align early with **management, board of directors** (if applicable), **and other stakeholders** on key messaging
- ▶ Improve **reliance on digital tools** to automate and store documentation
- ▶ **Replace paper-based sign-offs** with digital
- ▶ Coordinate with auditors for **remote process**

Maintain effective internal control structure *

* Refer to Appendix for deep-dive on internal controls considerations

Creating a virtual command and communication center is key to help drive a tightly managed close cycle

Virtual command and communication center

Set guidelines for working remotely

- ▶ Agree on collaboration tools for document sharing
- ▶ Create a group chat in a tool such as Microsoft Teams
- ▶ Establish expected working hours
- ▶ Distribute a key contact listing with cell phone numbers
- ▶ Follow leading practices for remote working
- ▶ Block personal working time on calendars
- ▶ Leverage current close and collaboration technology

Prepare to manage the close

- ▶ Appoint a close PMO – prepare to “over-manage” and “over-communicate”
- ▶ Use the close calendar to clearly identify expectations (roles, tasks and outputs)
- ▶ Identify critical roles or resources and establish a coverage plan, including cross-training prior to period-end close
- ▶ Define escalation protocols
- ▶ Designate on-call IT support resources during critical period

Rigorously execute

- ▶ Monitor and track progress of critical path activities in close checklist daily, and use dashboards
- ▶ Hold daily “pulse” meetings with your team to review status and resolve issues
- ▶ Monitor employee health and unexpected absences
- ▶ Escalate issues in a timely manner
- ▶ Conduct leadership review touchpoints every two to three days

Consider your meeting cadence

- ▶ **Close kickoff meeting** to align on expectations
- ▶ **Daily “pulse” meetings** to facilitate issue tracking and escalation
- ▶ **IT and finance meetings** to align on support needs prior to close
- ▶ **Leadership review touchpoints** bi-weekly to facilitate real-time insights

Appendix



Changes to consider related to your internal control environment

Consider reducing manual journal entries during close cycle:

- ▶ Consider raising (or enforcing) the materiality threshold in an escalating fashion throughout the close

Consider deferral of low-risk account reconciliations:

- ▶ Evaluate materiality thresholds and risk rankings for non-key accounts
- ▶ Consider deferring the completion of account reconciliations for non-critical accounts to a non-quarter-end

Coordinate with other departments, external vendors and service providers:

- ▶ Determine if other departmental impacts (e.g., legal, operations, sales) require accounting adjustments
- ▶ Understand if key data will be available on time
- ▶ Assess whether timing of key activities from shared service centers (SSC) will be adversely impacted
- ▶ Consider whether contingency plans are required in case of points of failure (either internal or external)

Identify impacts on internal control environment:

- ▶ Evaluate manual controls to identify those at increased risk in a remote workforce environment, and develop mitigation plans
- ▶ Assess the need to establish incremental process controls in areas significantly impacted by remote close process or change in business environment
- ▶ Consider whether process changes are needed to replace paper-based sign-offs with digital, and identify a process to store the digital documentation.

Remote financial close considerations*

Pre-close and governance

#	Considerations
1	Establish a virtual command center – including accounting, FP&A, tax, treasury and IT – to ensure cross-functional issues can be discussed and resolved in real time. Designate a PMO lead for the command center who can act as a single point of contact throughout the close process.
2	Engage regional and local teams early in the process and incorporate into the virtual command center structure.
3	Determine how the meeting cadence and governance structure should be amended to conduct remote month-end close status meetings.
4	Implement cross-functional meeting cadence and outline a communication process for all impacted stakeholders who are either contributors to or recipients of financial reporting. Share meeting notes and action items.
5	Establish guidelines for decision-making, escalation and resolution of critical path issues. Establish an authority matrix to clarify decision rights and the process to communicate critical decisions to key stakeholders and management.
6	Document and review the current month-end close calendar, including activities, owners, accounts and dependent systems.
7	Conduct a day-by-day walkthrough of how the remote month-end close process is supposed to operate.
8	Identify owners for all material accounts and ensure availability for remote close status meetings. Identify back-up owners, being mindful of segregation of duty requirements.
9	Give special consideration to how centralized functions (i.e., centers of excellence (COE) and SSC) can be impacted by remote work in their geographic location. Consider whether backup plans and changes in communication or ways of working are needed.
10	Communicate with BPO and other vendors to align on expectations of timing, and identify any potential resource or timeline constraints from third parties.
11	Identify critical resources and single points of failure, and establish coverage or backup plans in case of capacity constraints or illness, being mindful of segregation of duty requirements.
12	Assess degree of people or process redundancy in the finance function around the world to compensate for illness or absence (and avoid single-point process failure).
13	Monitor employee health and absences for need to initiate backup plans.
14	Determine which collaboration tools are available and train employees on those.
15	Identify potential gaps in process documentation and desktop procedures. Set up a centralized repository for critical close process and training documentation. Have all team members access content remotely.
16	Assess if you run a high volume of manual processes on a monthly or quarterly basis. Identify where and how critical the manual processes are. Develop backup plans for critical activities.
17	Identify any non-electronic data and paper records that are critical to the month-end close process. Establish an alternate plan if data cannot be accessed.
18	Establish a plan to obtain, document and store sign-offs and approvals during remote close status meetings.
19	Consider whether process changes are needed to replace paper-based sign-offs with digital. Identify process to store the digital documentation.
20	Evaluate manual controls to determine which are at increased risk in a remote workforce environment. Develop mitigation plans.

* Not exhaustive

Remote financial close considerations*

Pre-close and governance (continued)

#	Considerations
21	Assess the need to establish incremental process controls in areas significantly impacted by remote close process or change in business environment.
22	Inventory all financial systems used in the month-end close process. Assess criticality, remote access and bandwidth capabilities, and cybersecurity impact.
23	Identify systems that are not available via remote access or have highly limited access controls and determine alternate procedures.
24	Align with IT on what systems support resources will be available during the close process. Designate on-call resources during critical periods (e.g., Days 1–5).
25	Test access to all systems and third party data feeds prior to start of month-end close.
26	Test payroll process and bank releases (internally or with third-party providers) prior to start of month-end close.
27	Consider how management and board meetings will operate in a remote environment. Pre-test technology prior to these events.
28	Perform forecasting and data analytics, update or rebuild financial models as needed to prepare cash flow projections and perform impairment testing.
29	Evaluate what diagnostic tools are available for variance analysis and FP&A. Determine if additional tools or activities are required in light of the current situation.
30	Implement any critical tools and technology to allow for a remote financial close.
31	Coordinate with auditors for remote activities.
32	Communicate with legal, operations, sales and other departments that are upstream of finance to understand how they are impacted by the current environment to determine if changes to forecast or accounting adjustments are needed.

* Not exhaustive

Remote financial close considerations*

General accounting and external reporting

#	Considerations
33	Identify work that can be completed before the period-end, using estimates where needed (e.g., recording depreciation on fixed assets or salary accruals)
34	Plan to estimate goods in transit and work in progress by communicating with operations to understand shipments that are expected to be completed before month-end.
35	Assess outstanding AR balances and collectability, and perform predictive modeling if needed. Incorporate impact of temporary business closures and broader macroeconomic environment into calculation of judgmental AR reserves.
36	Consider supply chain disruptions and impact on critical vendors. Evaluate inventory balances to identify expected slow-moving or obsolete inventory that may need to be written off.
37	Evaluate materiality thresholds and risk rankings for non-key accounts. Consider deferring completion of account reconciliations for non-critical accounts to a non-quarter-end.
38	Examine process for manual journal entries and consider raising (or enforcing) the materiality threshold in an escalating fashion throughout the close (e.g., US\$100k on Day 1 with approval of business unit controller, US\$250k on Day 2 with approval of global controller and US\$500k on Day 3–5 with CFO approval).
39	Determine which estimates you make in the current process, and which can you make with reasonable accuracy, given the current business environment. Consider whether additional reviews and approvals should be required.
40	Identify countries within your legal entity structure that are high risk and assess your ability to make reasonable estimates of month-end balances using forecasts or budgets. Design workarounds, as needed, including appropriate review and approval.
41	Identify long-lived assets, goodwill and intangibles that may be subject to an impairment analysis due to change in business conditions.
42	Assess whether any changes in employee structure will require additional accruals to be recorded (e.g., layoffs or severance)
43	Perform analysis or modeling of reserves amounts with management review and approval of any changes from previous quarters.
44	Evaluate cost and equity method investments to determine if there has been an "other than temporary" decline in the value of an investee that would trigger impairment.
45	Perform preliminary GL account level analytics to document key drivers of account fluctuations. Discuss any material movements with management early in the process.
46	Assess changes in manufacturing capacity for impact on inventory costing.
47	Provide management and the board committee with detailed pre-read materials and make sure absences are planned for.

* Not exhaustive

Remote Financial Close Considerations*

Taxes

#	Considerations
48	Monitor international, federal, state and local legislation for impact on your taxes, grants or incentives.
49	Determine if there are jurisdictions projecting a loss for the year and assess whether the loss is expected to be realizable.
50	Obtain updated forecast income or loss for the year to determine the estimated annual ETR.
51	Review forecast for consistency with other financial accounting estimates used.
52	If forecast is not reliable or cannot be reasonably estimated, determine if the actual ETR should be used for the interim period.
53	Determine if changes in supply chains and operations are reflected in the projected mix of pre-tax earnings.
54	Update estimates of deferred tax assets and assess for realizability.
55	Finance, tax and treasury to check if there is a change in assertion regarding outside basis differences in foreign subsidiaries.
56	Consider special tax accounting rules for losses from continuing operations
57	Evaluate government grants or incentives on indirect taxes.
58	Consider potential changes in estimated apportioned state tax rate.
59	Re-estimate permanent differences for meals and entertainment expenses.
60	Determine changes on tax accounts from interest disallowance rules.
61	Consider additional tax disclosures for changes in estimates and management judgments.

* Not exhaustive

Remote financial close considerations*

Prepare for future cycles

#	Considerations
62	Conduct robust close debrief to determine improvements needed for future period-end close cycles.
63	Implement tools and technology to streamline financial close process (e.g., enhanced usage of workflow and collaboration tools, quick automation opportunities).
64	Consider implementing longer-term efficiencies for future periods, including chart of account simplification, auto-reconciliation capabilities and close process project management or workflows tools.
65	For future cycles, consider tasks or activities that can be shifted prior to month-end. For example, establishing cut-off for final payment run one week prior to close.
66	Consider simplifying allocation and reclass activities to improve efficiency.
67	Designate process owners to drive efficiency, both within finance as well as other functions such as legal, procurement, HR or IT. If global process owners are not already identified, consider doing so now.
68	Evaluate ongoing data and information needs for accounting and disclosure, and develop to fulfill these on a timely basis.
69	Develop remote internal audit and internal controls approach.

* Not exhaustive

Leveraging leading practices for virtual working to improve efficiency

Team interaction

- ▶ Teams are made of people – spend more time on personal connections than normal
- ▶ Maintain daily contact
- ▶ Match office hours and standing meetings as if onsite
- ▶ Hold one-on-one touchpoints with key business partners (start with daily)
- ▶ Align on cadence (roles and responsibilities)
- ▶ Let others know you've seen a request and will address

Meetings, working sessions and workshops

- ▶ Schedule fewer formal workshops but more working sessions
- ▶ Target no more than 30-minute calls where possible
- ▶ Utilize agendas in meeting invites to add structure
- ▶ Leverage instant messaging and one-on-one calls frequently
- ▶ Accept or decline meeting invites in advance

Email

- ▶ Verify full contact information in signature, including cell phone
- ▶ Use intentional subjects (e.g., Request: Send me xyz...)
- ▶ Send short, structured notes with short paragraphs and bullets
- ▶ Be purposeful in who is included in "to" and who is a "cc" for awareness only

Video conferencing

- ▶ Sign on with full name, group and role
- ▶ Use video chat (dress as you would at office)
- ▶ Make sure your microphone is functioning at the appropriate sound level, stay on mute when not speaking and minimize background noise
- ▶ Share content, notes and actions, and whiteboard
- ▶ Leverage for one-on-one discussions

Microsoft Teams, SharePoint and other teaming tools

- ▶ Leverage workflow and collaboration tools that support virtual teaming
- ▶ Take advantage of landing pages, topic threads

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