

# COVID-19 Acid Test

Considerations for narrative reporting by UK listed companies

April 2020

# Considerations for narrative reporting in the COVID-19 crisis

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## Introduction

What should boards of listed companies consider when communicating the impact of the COVID-19 crisis and the company's response? EY's Corporate Governance team has updated its usual acid test to cover matters that are particularly pertinent at this time.

Our acid test - which we have had for the last six years - is a practical tool for preparers and boards looking to ensure the narrative within the Annual Report and Accounts (ARA) covers the key qualitative aspects of leading practice. It is also a useful test for putting themselves in the shoes of a reader or user, as we believe a reader should be able to answer the questions in the acid test having read the narrative report. We update it both as reporting requirements change and investors' and stakeholders' expectations of what constitutes good narrative reporting evolve.

Many listed companies (other than December 2019 and some January 2020 year-ends) are yet to report against the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018. In our view, their narrative reporting should address the points in our updated COVID-19 acid test.

The Financial Reporting Lab published an [infographic](#) in March 2020 with five key questions that companies' narrative reporting should address in light of COVID-19. The first four include an articulation of the immediate or shorter term impact of the crisis e.g., on current levels of liquidity, access to financing and the use of government-backed support. This updated acid test covers the fifth question - the longer term impact of the crisis on the company and its impact on value creation and preservation.

Management and boards will be making many difficult decisions in the coming weeks and months, many of which might have long-term implications for a company's stakeholders as well as its future success. A balanced and thoughtful approach to how these are reported is critical in the context of maintaining and enhancing long term trust both in individual companies, and business in general.

As companies respond and adapt to the unfolding crisis, so too should their reporting. We encourage companies to be transparent about the challenges faced and tell the story of their response with clarity and pride. We also encourage management and boards to use the temporary extensions and relaxations announced by UK regulators to create balanced and meaningful reporting on the impact of this deadly challenge and the company's response.

**For further insights on narrative reporting or corporate governance insights contact:**



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## Purpose, strategy and culture

- ▶ How is the company realising its purpose during the COVID-19 pandemic?
- ▶ How are some of the difficult decisions the board has made/will make aligned to the company's purpose? Are there any that may challenge the company's purpose in the long term?
- ▶ Has the company's purpose remained relevant or has this pandemic indicated that the board may need to reconsider/refresh it?
- ▶ How will the current circumstances impact the company's strategic direction? What do you expect the longer-term impact of COVID-19 to be on your business?
- ▶ How are decisions around capital allocation being impacted by COVID-19? Have you articulated the longer term consequences of these decisions?
- ▶ How is the board assessing and monitoring culture during the time of remote working?

## Business model

- ▶ How is the company adapting its normal ways of operating to ensure it remains solvent in the short term and viable and sustainable in the medium to long term?
- ▶ How are customer needs and priorities changing in light of COVID-19 and how is the company responding? What is the impact on normal revenue streams?
- ▶ Have new upside opportunities emerged as a result of the COVID-19 crisis (e.g., e-commerce growth) and how has management capitalised on these?
- ▶ How resilient is the business model to any anticipated long term impact of COVID-19 e.g., on buying patterns, trends and consumer behaviours?
- ▶ How are the company's competitive advantages being impacted by COVID-19 crisis? How is the competitive landscape changing?

## Metrics

- ▶ Which new metrics (if any) have been established to assess performance during this crisis? Will they influence remuneration?

## Risk appetite, principal risks and viability statement

- ▶ How has the board's assessment of principal risks considered COVID-19? Has this resulted in a new principal risk(s) or have existing principal risks been updated, or both?
- ▶ Is the board's risk appetite for certain principal risks reduced? If so, what additional mitigating measures are you taking?
- ▶ How confident is the board on maintaining the previous timeframe to assess the viability of the company? Is the level of uncertainty so high, that the period should be reduced?
- ▶ How have the viability scenarios from previous years changed to reflect COVID-19? Is the statement clear on the assumptions and caveats, for example around expected operational restrictions, ability to meet debt covenants or assumed duration of COVID-19 crisis etc.? What poses the greatest threat to the viability of your company? What stress testing (including reverse stress testing) has been performed?
- ▶ What is the board's view of the longer term prospects of the company beyond the crisis?

## Risk management and internal control disclosures

- ▶ What has the current crisis taught management about its risk identification and management processes? Are the company's risk management systems being adapted/reconsidered in light of COVID-19?
- ▶ What enhancements and changes may be required in internal controls resulting from the situation and new ways of working? Consider the resilience and security of the IT environment in particular.
- ▶ Given the increased reliance on virtual working and file sharing, how is the company ensuring data privacy? What additional mechanisms has the company put in place to safeguard against a potential cyberattack?
- ▶ Do the company's procedures for identifying, categorising, managing and mitigating emerging risks remain appropriate?
- ▶ How has the board's review of the effectiveness of risk management and internal control systems been adapted/reconsidered in light of the crisis and the company's response to it? e.g., seeking additional assurance, increasing scope of monitoring etc.

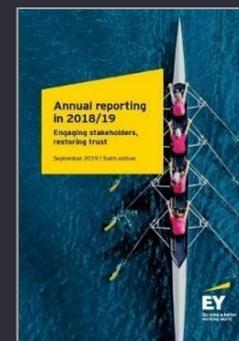
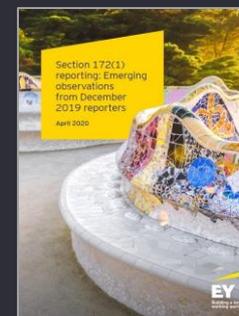
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## Stakeholder engagement and s172

- ▶ How are management and the board adapting their stakeholder engagement strategy in light of the crisis? Were new mechanisms of engagement introduced?
- ▶ How is the board engaging with the workforce during the period of remote working?
- ▶ How is COVID-19 influencing the views/priorities of key stakeholders? How is the company gaining input and insight on these and factoring them into its response to the crisis?
- ▶ What principal decisions are being made during this time? How has the board considered the impacts of these on stakeholders, including the company's efforts to mitigate/minimise adverse consequences? E.g., furloughing employees vs. redundancies, delaying supplier payments vs. reducing payments, pausing investment in certain projects vs. cancelling the investment.
- ▶ What adjustments to the form and the conduct of the annual general meeting have been made to meet social distancing policies and travel restrictions? How is the board ensuring shareholders' voices are being heard and their ability to exercise their stewardship role is not adversely impacted?

## Governance

- ▶ How is COVID-19 impacting the board's and its committees' priorities for the year? What are the key governance issues at the moment?
- ▶ How is the board adapting its way of working to govern effectively through the new remote working requirements? How are the communication mechanisms between the management and the board being adapted to ensure fluidity and timeliness?
- ▶ Have board members been able to devote sufficient time to their roles during this time of crisis?
- ▶ How is the board being kept updated on both the changing regulatory framework as well as the various temporary measures and relaxations that regulators have extended to oversee and monitor the company's compliance with these? Consider changes to health, workplace safety, filing extensions, government support schemes etc.
- ▶ What additional work has the audit committee done to address the key areas of judgement (in light of COVID-19) in the financial statements e.g., impairment, valuations, going concern?
- ▶ What specific oversight has the audit committee exercised over the company's overall reporting and other market communications to ensure these remain fair, balanced and understandable?
- ▶ Have any lessons been learnt regarding the different skill sets required to govern effectively through the crisis? How is the nomination committee considering these in future succession planning?
- ▶ How is the board considering the potential impact of COVID-19 on the implementation of remuneration policies and executive remuneration in the year?



To find out more about corporate governance and narrative reporting visit our website:

[www.ey.com/en\\_uk/assurance/corporate-governance-and-reporting](http://www.ey.com/en_uk/assurance/corporate-governance-and-reporting)

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