Impacts of COVID-19 on Public Companies

By Nicole Hallas, Audit Analytics

Audit Analytics recently released a new report, *Impacts of COVID-19 on Public Companies*. Leveraging our extensive databases, this report provides an in-depth look at the pandemic's impacts on certain aspects of financial reporting and financial health metrics of public companies. This includes late filings, controls, going concerns and impairments.

Developing a better understanding of what has happened during this unprecedented global event provides valuable insight into the risks facing public companies, auditors and regulatory agencies that may reoccur with future events.

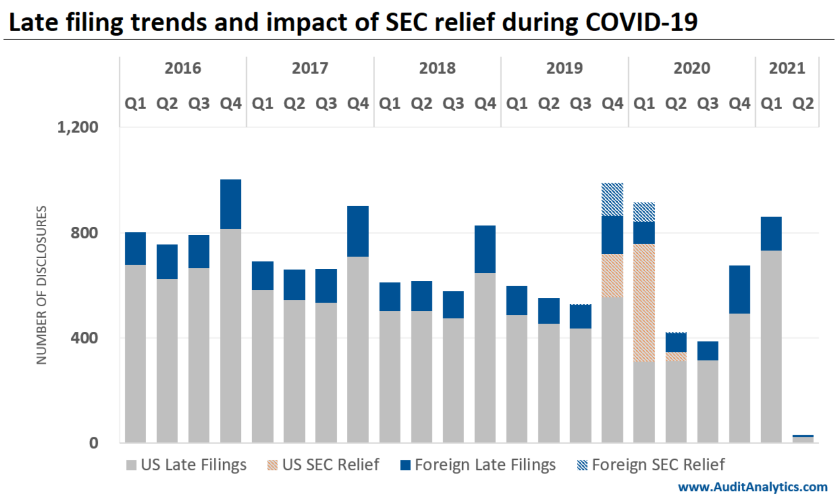
Financial Reporting

The global impact of COVID-19 on normal operations posed a risk to financial reporting quality. Notably, late filings and controls.

Disrupted operations required rapid shifts in the working environment. Subsequently, the ability to ensure that all required disclosures are accurate, complete and timely was also disrupted.

Further complicating disrupted operations was the timing of the pandemic in the financial reporting cycle, occurring at the end of 2019 into 2020. As a result, the inability to file reports on time was anticipated. To mitigate this, the SEC provided the option of extended filing deadlines via regulatory relief.

The combination of companies that failed to file on time, and those that opted to take the SEC relief, contributed to a year-over-year increase in 2019 late filings. This reversed a four-year trend of public companies improving their ability to deliver timely information.



Interestingly, the pandemic's noted impact on the number of late filings differed from the average number of days it took for most public companies to file their delinquent reports.

The changes in the working environment in response to COVID-19 resulted in companies needing to make changes to their controls. As discussed in the report, these particular changes, executed rapidly and without precedent, heighten the risk for misstatements; depending on severity, there is the potential for material impacts.

Financial Health During COVID-19

Shuttered operations during COVID-19 that resulted from lock-downs and restrictions posed a risk to financial health due to inhibited cash flows and revenue.

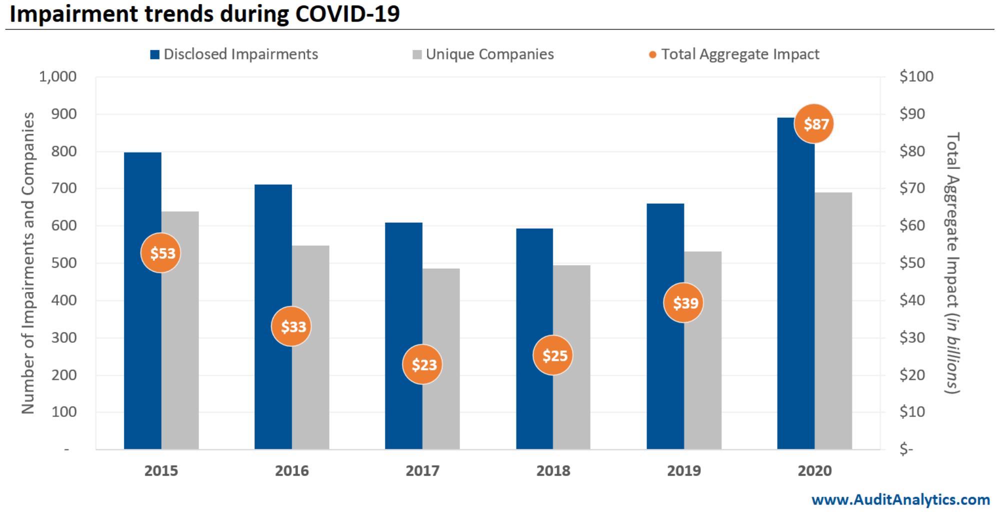
In addition, the volatility and uncertainty of the pandemic destabilized estimates and assumptions necessary in financial statements. Upended estimates pose a risk to certain financial health metrics, prompting Audit Analytics to look at going concerns and impairments in the context of the pandemic.

Estimates and assumptions are necessary components when determining if a company can continue as a going concern, or meet its obligations, for the next 12 months. The report provides an in-depth look at COVID-19's impact on the number of going concerns.

The confluence of conditions during the pandemic catalyzed another financial health component: impairment charges.

Notably, 2020 saw a staggering $518 billion in total write-downs recorded by public companies. This aggregate impact far surpasses the annual impairment totals disclosed in the previous five years.

Impairment trends during COVID-19



Shifting trends and uncertainties substantially impacted the estimates, assumptions and future expectations underlying asset valuation models. Many companies had to reevaluate the underlying fair value of their assets to determine if an impairment charge was needed. Subsequently, the number of impairments taken in 2019 and 2020 increased, in contrast to the downward trend observed since 2015.

The pandemic has now impacted three separate years, with no signs of fully abating. Certain heightened risks arising from pandemic-related conditions will likely continue in the years to come.

For example, control weaknesses resulting from a company's rapid shift to remote work might go undiscovered. Additionally, extra scrutiny applied to pandemic-related disclosures could result in future litigation or regulatory enforcement.

Some issues resulting from the COVID-19 pandemic may take years to be discovered or disclosed, underscoring the importance of diligence and risk management now and in the future.

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