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COVID-19 & Ethics | Staff Publication

ETHICAL AND AUDITING IMPLICATIONS ARISING FROM GOVERNMENT-BACKED COVID-19 BUSINESS SUPPORT SCHEMES

January 2021

Ethical and Auditing Implications Arising from Government-backed COVID-19 Business Support Schemes

This staff publication highlights ethical and auditing implications arising from government-backed COVID-19 business support schemes and provides related guidance to professional accountants in public practice and in business.

Professional accountants need to be mindful and take into consideration that some jurisdictions might have provisions that differ from or go beyond those set out in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code). In these jurisdictions, accountants need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.



This publication was developed by the Staff of the UK Financial Reporting Council (FRC) under the auspices of a Working Group formed by the International Ethics Standards Board for Accountants (IESBA) and national ethics standard setters (NSS) from Australia, Canada, China, South Africa, the UK and the US.¹ The publication has also benefited from the input of the Staff of the IESBA.

The Working Group's charge is to develop implementation support resources to assist professional accountants in effectively applying the Code when facing circumstances created by the COVID-19 pandemic.

This publication does not amend or override the Code or applicable auditing standards, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the Code or the auditing standards. The implementation guidance is not meant to be exhaustive and reference to the Code or the auditing standards, as appropriate, should always be made. This publication does not constitute an authoritative or official pronouncement of the UK FRC, the IESBA, or the other NSS organizations that form part of the Working Group.

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1. The NSS are the Australian Accounting Professional & Ethical Standards Board, Chartered Professional Accountants of Canada, the Chinese Institute of Certified Public Accountants, the South African Independent Regulatory Board for Auditors, the UK Financial Reporting Council, and the American Institute of Certified Public Accountants.

Introduction

1. In many jurisdictions, governments have responded to the COVID-19 pandemic with an unprecedented range of business support schemes. These have provided funding to furlough staff,² as well as additional liquidity and loan funding, to support businesses through a period of business closure, and circumstances where they may not be able to deliver on all their product or service offerings.
2. The existence of such schemes may pose additional or heightened risks that professional accountants³ and auditors need to consider carefully. This paper sets out some of those issues, which may have ethical implications, implications for those who prepare financial information, and implications for those who independently audit or assure such information.

Ethical Considerations Relating to Entities' Applications for Support

3. Professional accountants and auditors may have an important role to play in supporting entities that apply to a government support scheme, or to a financial institution for additional support. Supporting such an application may pose a threat⁴ to independence where the professional accountant in public practice or auditor assumes management responsibility when undertaking such an engagement. This is prohibited by the Code, and practitioners requested to provide such support will need to ensure that the engagement does not result in them assuming a management responsibility when performing the service, thereby compromising their independence.

additional financing facilities or the disposal of parts of their operations. Where the professional accountant in public practice or auditor agrees to provide assurance services in support of such applications, they need to carefully consider the impact that this may have on their independence, which may be subject to a range of threats as set out in more detail in the rest of this paper.
5. The provision of information in support of applications for financial support may be time critical. Government may require audited financial statements to support applications. Government may also, or alternatively, require assurance to support the veracity of reported business turnover or management's assertions about the impact of the pandemic on the business, or to attest to other specified preconditions for the financial support. Accessing that support is critical to ensuring that an entity does not trade while insolvent. This may in turn limit the time that the professional accountant in public practice or auditor has to carry out the necessary work required to an appropriate standard, and with due skill and care. A self-interest threat may be created if the professional accountant in public practice or auditor has insufficient time to perform or complete the relevant work. Accordingly, it is important that the professional accountant in practice or auditor put in place appropriate steps to ensure that there is sufficient time to carry out the engagement in accordance with the fundamental principles and other requirements of the Code.
4. Many large companies have also sought to strengthen their financial position by taking a range of actions, including raising equity or placing debt through financial markets. Mid-sized and smaller companies may have sought to strengthen their liquidity or financial position through the agreement of



The IESBA May 2020 Staff Q&As publication includes important considerations for firms that are called upon to assist audit clients in securing COVID-19 related funding or financial support. (See Non-Assurance Services, section at page 7)

[Click image to read more](#)

2. Furloughed staff are given a temporary leave of absence by their employing organizations whilst still being paid.

3. For ease of reference, in this publication hereafter, the terms “professional accountant” and “professional accountant in public practice” refer to a professional accountant or a professional accountant in public practice other than an auditor.

4. Paragraph 120.6.A3 of the Code describes the categories of threats to compliance with the fundamental principles and to independence.

6. Providing the necessary assurance as part of the application for the financial support may result in the professional accountant in public practice or auditor having to evaluate assumptions or judgments made by management. This work might create an intimidation threat to compliance with the fundamental principles if management puts pressure on the practitioner to accept those judgments. This may be the case if funding decisions are critical to the entity's survival. Such engagements, and providing wider support to management, might also create an advocacy threat if the professional accountant in public practice or auditor is asked to provide assistance in making a case for financial support.



7. Where the professional accountant in public practice or auditor provides a professional service to the entity that involves preparation of financial information as part of the application for the financial support, a self-review threat to independence might also be created. Further, if the provider of assistance charges any sort of fee contingent on the success of the application, there is likely to be a self-interest threat. Section 410 of the Code sets out specific requirements and application material addressing circumstances involving contingent fees.

8. These assessments will depend on the application of professional judgment. On one hand, public authorities may have encouraged affected businesses to apply for support and for professional advisors to support them through that process. However, practitioners must ensure that they consider the ethical obligations arising from any services provided. To help their consideration of threats to independence, application of the Code's conceptual framework requires consideration of how the services would be viewed from the perspective of an objective, reasonable and informed third party, particularly where the assessment criteria for a support scheme could be open to interpretation. They could also engage with stakeholders of the company to better understand their expectations.

9. Where such threats are identified and they are not at an acceptable level, paragraph R120.10 of the Code requires the professional accountant in practice or auditor to take steps to eliminate the threats or reduce them to an acceptable level. Where they are unable to do so, the professional accountant in public practice or auditor would need to decline the professional service.



10. For a professional accountant in business, they may be asked to generate information which might be used in support of an application. They will also need to consider how to address any threats they face, particularly where they are asked to adopt an aggressive treatment of financial information to meet the criteria for support from a scheme. The guidance in paragraph 8 may be helpful in dealing with this situation.

Ethical Considerations Relating to Entities' Use of Support Funding

11. Where a business receives financial support, this may result in the identification of further risks that need to be addressed, or it may exacerbate existing risks that an entity faces. For instance, in the UK, the government provided financial support to allow workers in affected sectors to be furloughed on a set percentage of their salary subject to a cap. One of the conditions to the furlough scheme was that those workers should not be used by the business while under furlough. The UK press has reported examples of misuse of this funding, which may be an attempt on the part of a dishonest business to defraud the taxpayer by reducing the cost of doing business.⁵ In other jurisdictions, different requirements will apply. For example, in Australia, the government introduced a 'JobKeeper wage subsidy scheme' to encourage employers to retain employees by contributing to the costs of the employee, and in some cases such employees can continue to work (e.g. at reduced hours).
12. Some jurisdictions include requirements for independent assurance over the use of business support funding. If a professional accountant in public practice or auditor is asked to provide such assurance, this needs to be carefully considered to determine if it will expose the auditor to threats to independence or objectivity that cannot be effectively addressed. This risk may be greatest where the level of support provided to a business is material to that entity in either quantitative or qualitative terms or both. In such circumstances, management may be under greater pressure to report that they have complied with the rules of the support scheme.
13. Even where a support scheme does not require the provision of independent assurance, local reporting obligations or requests for such reporting may mean that the professional accountant in practice or auditor becomes aware of companies reporting a position which is misleading or fraudulent. Where this is the case, local regulatory requirements addressing the reporting of fraud, money laundering or use of criminal proceeds will need to be complied with, and the professional accountant or auditor may need to take appropriate advice so that they understand their obligations in that respect. Sections 260 and 360 of

the Code guide professional accountants in business and in public practice in responding to non-compliance with laws and regulations (NOCLAR).



**Learn more about NOCLAR
by visiting the IESBA
NOCLAR Web Page.**

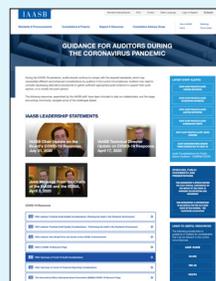
[Click image to read more](#)

14. The provision of business support funding has been effective in providing businesses with additional liquidity to see them through operational restrictions caused by 'lockdowns'. However, increased liquidity may bring with it implications for the solvency of a business. An example of such a situation is if the funding provided has to be repaid if there are additional profits earned as a result of the financial support, but the entity is unable to repay the funding. This assessment will require the exercise of appropriate professional judgment and professional scepticism, which will need to take account of the greater uncertainty businesses may face as a result of the pandemic.
15. As in situations involving applications for support, professional accountants in public practice and auditors might face threats to compliance with the fundamental principles or to independence as a result of intimidation, finding themselves in a situation where they may be undertaking an advocacy role, or where they may be required to make judgments that expose them to a self-review threat. Where such threats are identified, the professional accountant in public practice or auditor undertakes the steps set out in paragraph 9 of this paper.

5. See the Appendix for illustrative examples of fraud, money laundering and other related issues arising from government support schemes around the world.

Considerations Relating to Financial Reporting and Auditing

16. Whether or not a business has accessed a support scheme or schemes, a company will still need to prepare financial statements to meet local tax, filing or auditing requirements. In many jurisdictions, governments or local securities regulators have recognised that heightened uncertainty and operational restrictions may delay the preparation and audit of financial information, and they have responded by offering extended filing deadlines. In a complex international group, the group auditor may need to consider not only the requirements applicable to the parent company, but also those applicable to components operating in other jurisdictions.
17. Many regulatory authorities have issued guidance on the implications of the pandemic for preparers and auditors. This paper considers some of the factors that apply where entities have received support from government schemes, and how that support may impact on judgments taken by management, and assessments that subsequently need to be made by an independent auditor to support their conclusions.
18. The importance of the support received will depend on the nature of a company's operations and the degree to which they were affected by the pandemic. Where the level of support is material (in either quantitative or qualitative terms or both), then the auditor considers whether this poses a higher level of risk to the engagement, and factors this into the way in which they plan and perform their audit. Where financial performance is relevant to determining whether an entity has met key targets – for instance, meeting banking covenants, public performance targets or confirming the entity's going concern status – the auditor will need to ensure that they apply appropriate professional scepticism when assessing management's judgments, which is likely to be heightened given the nature of the assessments they are required to undertake. Professional scepticism is heightened further where estimates are subject to high levels of estimation uncertainty or may be more challenging to audit because of heightened uncertainty in the marketplace. Early on in the pandemic, the lack of an economic anchor scenario to use to make a severe but plausible downside assessment also exacerbated the challenge faced.
19. Operational pressures on a business may also create incentives or pressure on management to commit fraudulent financial reporting, or failure to comply with the applicable legal and regulatory framework to which the entity is subject. Such matters would need to be considered by the auditor in planning and performing their work.



Click on image to access COVID-19 guidance issued by the International Auditing and Assurance Standards Board (IAASB).

Click image to read more

This paper should be read in conjunction with other non-authoritative guidance issued by IESBA, as the risks posed by the COVID-19 pandemic may cover a broad range of issues, including increased risk of fraud or money laundering, and the use of specialists. These resources are available at the [IESBA COVID-19 Resource Web Page](#).



Appendix

Illustrative Examples of Reported Fraud, Money Laundering and Other Related Issues Arising from Government Support Schemes

CNBC

[Criminals launder coronavirus relief money, exploit victims through popular apps](#)

Wall Street Journal

[Evidence of PPP Fraud Mounts, Officials Say](#)

Accounting Today

[Will PPP fraud turn into the next wave of 'liar's loans'?](#)

Government of Canada

[COVID-19: Frauds and scams](#)

CTV News

[CRA snitch line now open to report fraudulent CERB claims](#)

[Numerous reports of fraud cases involving Canada Emergency Response Benefit](#)

National Post

[CRA to launch audit pilot project to see if fraud is prevalent in federal wage subsidy program](#)

Australian Government

[ATO zeroes in on COVID-19 fraud](#)

[Scam alerts](#)

Australian Broadcasting Corp.

[More than 6,500 applications for JobKeeper rejected due to ineligibility or fraud, ATO says](#)

The New Daily

[JobKeeper: Accountants warn of 'pop-up' fraud linked to wage subsidy](#)

About the UK FRC

The UK Financial Reporting Council (FRC) regulates auditors, accountants and actuaries, and it sets the UK's Corporate Governance and Stewardship Codes. The FRC promotes transparency and integrity in business. Its work is aimed at investors and others who rely on company reports, audit and high-quality risk management.

About the IESBA

The International Ethics Standards Board for Accountants (IESBA) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

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