

# ETHICS AND INDEPENDENCE CONSIDERATIONS RELATING TO COVID-19

Author: Member Advisory Services | June 2020

As the COVID-19 pandemic causes uncertainty and disruption around the world, CPA Ontario members must remain focused on their ethical responsibilities in dealing with new challenges faced by their organizations and clients. While navigating the uncertainties of the pandemic, members are expected to continue exercising a heightened sense of professional skepticism.

Members' obligations under the CPA Code of Professional Conduct (the CPA Code) must not be overlooked when confronted with COVID-19 related pressures and issues in financial reporting and other professional matters.

## ALL PROFESSIONAL ACCOUNTANTS

### Regulatory Considerations When Faced with Ethical Conflicts

As the COVID-19 pandemic continues to negatively impact economies, many businesses face significant financial difficulties. Members working with these organizations as an employee or advisor could face ethical conflicts in these situations. When confronted with ethical conflicts, members must determine an appropriate course of action that is consistent with the CPA Code. Members are advised to document and retain documentation in relation to the substance of the issue, details of any discussions or decisions concerning the issue, and legal advice if obtained.

If additional assistance is required, members should consult with [CPA Ontario's Advisors](#), others within the firm or employing organization, and/or those charged

with governance of the organization, such as the board of directors or the audit committee.

It is important that members continue to comply with the various Rules in the CPA Code, including, but not limited to, the following:

- Rule 201, *Maintenance of the good reputation of the profession* – a member or firm shall act at all times with courtesy and respect and in a manner which will maintain the good reputation of the profession and serve the public interest.
- Rule 202, *Integrity and due care and Objectivity* – a member or firm shall perform professional services with integrity and due care and not allow his or her professional or business judgment to be

compromised by bias, conflict of interest or the undue influence of others.

- Members should remember that the practical challenges of the pandemic do not reduce professional responsibilities to act with integrity, due care, and objectivity or to exercise sound professional judgment. This includes difficulties surrounding client acceptance when unable to meet them in person.
- Rule 203, *Professional competence* – a member shall sustain professional competence by keeping informed of, and complying with, developments in professional standards in all functions in which the member provides professional services or is relied upon.
- As members are asked to take on additional or urgent assignments, it is critical for members to assess whether they have the required professional competence before accepting the assignment.
- Rule 205, *False or misleading documents and oral representations* – a member or firm shall not sign or associate with any

documents or oral representations that they know, or should know, is false or misleading.

- In assisting with filing claims for COVID-19 related government relief measures, it is incumbent upon members to provide clear, accurate and transparent information, even if this may mean that clients or employers do not qualify for certain programs.
- Rule 206, *Compliance with professional standards* – a member or firm shall perform professional services in accordance with generally accepted standards of practice of the profession.
- Even when faced with time constraints resulting from the pandemic, members must ensure that professional standards are met.
- Rule 208, *Confidentiality of information* – a member or firm shall not disclose any confidential information concerning the affairs of a current or former client or employer without consent, except under certain conditions.
- As organizations have transitioned to virtual modes of work during the pandemic,

it is important for members to be aware of increased security risks to the confidentiality of employers' or client's data, and to implement appropriate controls.

- Rule 210, *Conflict of interest* – members and firms are required to identify any conflicts of interest relating to professional services, and to decline the engagement when conflicts exist, subject to certain exceptions as outlined in Rule 210.
- Rule 213, *Unlawful activity* – a member or firm shall not associate with any activity that the member or firm knows, or should know, to be unlawful.

If members encounter an ethical conflict and, after exhausting all relevant options, it remains unresolved, members should refuse to remain associated with the matter creating the conflict. Members may determine that, in the circumstances, the only option may be to withdraw from the engagement or employing organization in a manner consistent with the CPA Code.



# PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

## Considerations Regarding Fees

Many businesses are experiencing financial difficulties during these challenging times. As a result, members may be faced with pressures to reduce or postpone payment of professional fees or with uncertainties regarding the collectability of fees.

The CPA Code does not specify the level of fees that firms should quote for services to be provided to clients. However, Rule 214, *Fee quotations and billings*, states:

*A member or firm shall*

- (a) *obtain adequate information before providing a fee quotation to perform any professional service; and*
- (b) *render billings for professional services on a fair and reasonable basis and provide such appropriate explanations as are necessary to understand the billing.*

COVID-19 related pressures may elicit situations whereby members are faced with intimidation threats to lower fees or reduce the amount of work performed. In these cases, members are encouraged to consider Independence Rule 204.3 which requires the identification of threats to independence and application of safeguards to reduce any significant threats to an acceptable level. Paragraph 35 of the Guidance to Rule 204.3 further elaborates on the intimidation threat and states the following:

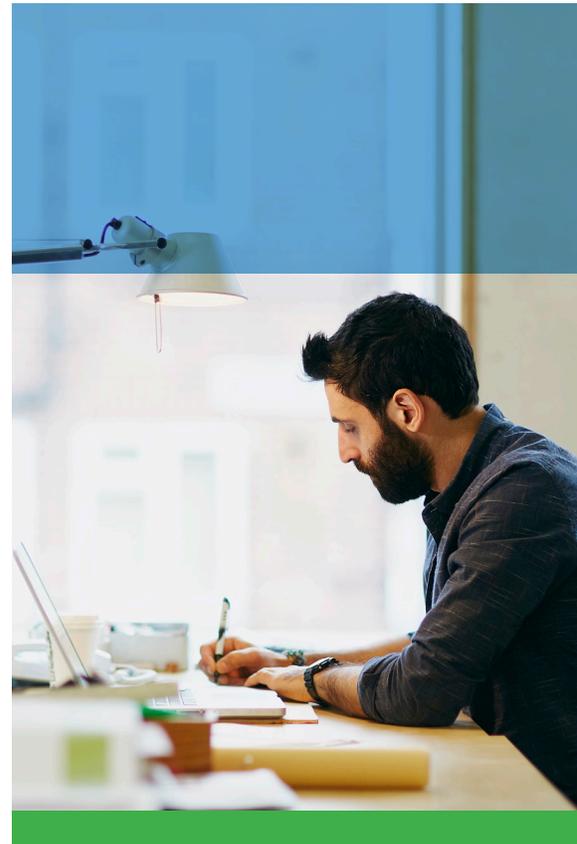
*An intimidation threat occurs when a person on the engagement team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client. Examples of circumstances that may create*

*an intimidation threat include the application of pressure to inappropriately reduce the extent of work performed in order to reduce or limit fees.*

In situations where there is a reduction in professional fees charged to clients, members must comply with Rule 204.4(36) stating the following:

*A member or firm shall not provide an assurance service for a fee that the member or firm knows is significantly lower than that charged by the predecessor member or firm, or contained in other proposals for the engagement, unless the member or firm can demonstrate:*

- (a) *that qualified members of the firm have been assigned to the engagement and will devote the appropriate time to it; and*
- (b) *that all applicable assurance standards, guidelines and quality control procedures have been followed.*



In fact, circumstances around COVID-19 might dictate that the amount of work to be performed should be more, and not less, than originally anticipated. Therefore members must be cautious that the quality of work is not compromised in any way.





Members expecting uncertainties regarding the collectability of professional fees before the engagement starts might consider asking clients for a retainer. However, if these uncertainties are experienced during or after the engagement, postponement of payments for professional fees may be an option when fees cannot be reduced. In this case, members should consider paragraph 6 of the Guidance to Independence Rule 204.4(36) which explains that:

*A self-interest threat may exist if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant portion is not paid before the assurance report for the following year is issued. Generally, the payment of such fees should be required before that report*

*is issued. The following safeguards may be applicable:*

- *discussing the level of outstanding fees with the audit committee; and*
- *involving another member of the firm who is not part of the engagement team, or a professional accountant who is not a member of the firm, to provide advice or review the work performed.*

Members are cautioned that overdue fees might create the same threats to independence as a loan to the client. Therefore, members should consider whether, because of the significance of such threats, it is appropriate for the firm to continue to provide assurance services to that client.

In situations where the threat to independence posed by unpaid fees is clearly insignificant, it is prudent to document the reasons for such a conclusion, including:

- percentage of the member's total fees derived from the particular client;
- client's previous payment pattern; and
- any unique or non-recurring circumstances that the client is currently facing.



## Non-assurance Services Provided to Assurance Clients

In the unprecedented circumstances surrounding the pandemic, assurance clients might reach out to members and firms for other services, such as assistance with funding applications to lenders or government relief programs. When such requests are received, members must assess whether such service requests are subject to specific prohibitions for Non-assurance Services (NAS) provided to an assurance client in the Independence Rules.

Members are cautioned that the NAS must not create a threat to independence that cannot be reduced to an acceptable level with appropriate safeguards and must not involve assuming management responsibility.

There are several threats to independence that may arise from the provision of such services:

- to the extent that such arrangements could result in the auditor effectively auditing his or her own work, there is a self-review threat;
- to the extent that the provision of NAS might allow the auditor to develop too close a relationship with management, the board or the audit committee, there is the possibility of a familiarity threat;
- in some cases, the firm may risk assuming the role of advocate for the client; and
- to the extent that a consulting contract may be lucrative for the firm, there exists the possibility of self-interest or intimidation threats.

Certain types of NAS that members may be asked to undertake during COVID-19 for assurance clients are specifically prohibited in Independence Rule 204, including performing management and accounting functions, providing valuation, IT, or corporate finance services, as well as assistance with many tax services. For services that are not prohibited, the Guidance to the Independence Rules provides examples of safeguards that may be applied to reduce threats to independence caused by the provision of NAS to an assurance client. Additional guidance and examples are also provided in the [Guide to Canadian Independence Standard](#).

## Communication With Those Charged with Governance

The pandemic has affected the way members and firms engage and communicate with their assurance clients, including those charged with governance (TCWG). Physical distancing measures as well as working virtually might impact how and when members communicate matters relating to assurance engagements. It is important for members to be proactive and flexible in their approach, in order to ensure that independence and other considerations are effectively raised and discussed in a timely manner. Given the significant implications that COVID-19 will have on assurance engagements, communicating these matters with TCWG is critical. This should include any contingency plans that may be required to address changing circumstances in the ever-fluid pandemic environment.

Communications with audit committees and TCWG may be considered a safeguard to certain threats to independence, as discussed throughout the Guidance to the Independence Rules. In addition, Rule 204.4(21) requires that the audit committee of a reporting issuer/listed entity client pre-approve all professional services provided by the firm to the client.

Members should also consider the requirements to communicate with TCWG in the Canadian Auditing Standards (CAS 260 *Communication with those charged with governance*) and the Canadian Standard on Review Engagements (CSRE 2400 *Engagements to review historical*

*financial information*). Effective two-way communication helps both the auditor/member and TCWG understand matters related to the assurance engagement, including, among other things: scope and timing of the engagement, significant risks, significant findings, and independence matters.

CAS 260.17 requires the following;

*In the case of listed entities, that the auditor communicates with TCWG:*

- (a) *A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and*
- (b) (i) *All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and*  
*(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.*

Timely communication throughout the engagement is important, and

the appropriate timing will vary depending on the situation. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by TCWG. For example, it may be appropriate to communicate a significant issue encountered relating to COVID-19 as soon as practicable if management or TCWG are able to assist the practitioner to overcome the difficulty.

While members navigate through all the challenges in their professional assignments posed by COVID-19, it is critical not to lose sight of the high ethical standards required of a CPA.

Further guidance on financial reporting, audit, regulatory, corporate governance, and practice management matters related to COVID-19 is available in the [Coronavirus Impact: Resource Guide](#).

As no two situations are identical, members are responsible for ensuring that their own situation complies with the CPA Code and professional standards.

For further guidance, members are encouraged to contact a [Practice or Member Advisor](#):

Phone: Direct line 416-204-3106 or toll free at 1-800-387- 0735, ext. 4456.

Email: [practiceadvisory@cpaontario.ca](mailto:practiceadvisory@cpaontario.ca) or [memberadvisory@cpaontario.ca](mailto:memberadvisory@cpaontario.ca).