

# Center for Plain English Accounting

AICPA's National A&A Resource Center

## **Management Representations** **PPP Loans, Relief Funding & Other COVID Matters**

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As indicated in our numerous reports dealing with the impacts of COVID, the pandemic shakes up many areas of the audit. One impacted area receiving more recent attention is management representations. As practitioners wrap up their audits, many are questioning whether additional representations are needed from clients due to Paycheck Protection Program (PPP) loans, receipt of stimulus relief funds, changes in operations, or any other mix of COVID-related issues. Liability insurance providers for CPAs have historically stressed the importance of a tailored representation letter in defending CPAs. In the current environment, the importance of tailoring representation letters takes on even further significance. In this report, we provide suggestions for consideration.

### Considering Additional Representations

Because of the pandemic's repercussions on financial reporting and business operations, auditors are permitted to add additional representations to the management representation letter, depending upon the circumstances of an engagement. Those additional representations may relate to the going concern assumption, subsequent events, risks and uncertainties, fraud, significant estimates, receipt of PPP loans and other relief funding, changes in operations and internal control, and other relevant matters.

### Relevant AU-C 580, *Written Representations*, Guidance

AU-C 580.A13 indicates “Depending on the nature, materiality, and extent of estimation uncertainty, written representations about accounting estimates recognized or disclosed in the financial statements may include representations about the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework and the consistency in the application of the processes ... [and] that the assumptions appropriately reflect management’s intent and ability to carry out specific courses of action on behalf of the entity when relevant to the accounting estimates and disclosures.”

### Relevant AU-C 580 Guidance

AU-C 580.A18 indicates “the auditor may consider it necessary to request other written representations about the financial statements. Such written representations may supplement, but do not form part of, the written representations required by paragraphs .10–.18. They may include representations about the following ... [w]hether the selection and application of accounting policies are appropriate [and] [a]spects of laws, regulations, and contractual agreements that may affect the financial statements, including noncompliance.”

## Illustrative Representations

Below are example management representations related to pandemic-related higher risk matters that may be appropriate. The examples are non-authoritative. Practitioners should exercise professional judgment in determining whether additional management representations are necessary or prudent and the nature of those representations, based on the circumstances of a client and engagement. The examples should be tailored to reflect the circumstances of the client and engagement, including the accounting principle being applied by the client as well as the status of PPP loans and other relief funding.

### Estimates & Uncertainty

*The disruption resulting from the COVID-19 pandemic is currently expected to be temporary, but there is considerable uncertainty around the duration and the Company expects this matter to [negatively/significantly] impact its operating results. The Company has disclosed all the matters of which we are aware that are relevant to the Company’s ability to continue operations including significant conditions and management’s plans.*

*We have not completed the process of evaluating the effect that will result from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, as discussed in Note [X]. The company is therefore unable to disclose the effect that the CARES Act will have on its financial position and the results of operations.*

*We have identified all accounting estimates that could be material to the consolidated financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates and assumptions are reasonable in the circumstances.*

#### Long Lived Assets & Goodwill Impairment

*We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.*

*Goodwill is tested for impairment annually and when triggering events indicate that it is more likely than not that an impairment exists (fair value is less than carrying amount). The Company assessed COVID-19 macroeconomic conditions such as deterioration in general economic conditions, changes in the market for patient services, increased cost factors, and overall financial performance. Upon assessment, the Company concluded that it is not more likely than not that the fair value of the reporting unit (or reporting entity if accounting alternative policy election made) is less than the goodwill carrying amount and an impairment charge was not required.*

*[If ASU 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events, is adopted. See our Alert on this ASU.]*

*Goodwill is tested for impairment when triggering events indicate that it is more likely than not that an impairment exists (fair value is less than carrying amount). At the end of the reporting period [indicate reporting period end date; e.g., December 31, 2020] the Company performed its goodwill triggering event evaluation and assessed COVID-19 macroeconomic conditions such as deterioration in general economic conditions, changes in the market for patient services, increased cost factors, and overall financial performance. Upon assessment, the Company concluded that it is not more likely than not that the fair value of the reporting unit (or reporting entity if accounting alternative policy election made) is less than the goodwill carrying amount and an impairment charge was not required.*

*With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as [describe type]:*

a. *The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied in accordance with U.S. GAAP [except for [insert appropriate description]].*

b. *The completeness and adequacy of the disclosures related to fair values are in conformity with U.S. GAAP [except for [insert appropriate description]].*

c. *No events have occurred subsequent to [balance-sheet date] that require adjustment to the fair value measurements and disclosures included in the financial statements [except for [insert appropriate description]].*

*The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets (goodwill and other intangible assets) for impairment in accordance with U.S. GAAP. The financial statements referred to above reflect all adjustments required by U.S. GAAP as of [balance-sheet date].*

*We have reviewed each reporting unit's goodwill for impairment using a step 1 analysis under FASB ASC 350 whenever our qualitative analysis identifies events or changes in circumstances that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount and have appropriately recorded the adjustment. We believe that the projections and methodology used to calculate the fair value of the reporting unit are appropriate and represent the best estimate of future projections.*

#### Internal Controls

*The internal controls over the receipt and recording of received grants and contributions are adequate. We are in compliance with contractual agreements, grants, and restrictions. Revenues from grants and contributions are only recognized when all applicable conditions have been substantially met. [We believe the Corporation has used CARES Act funding in accordance with applicable HHS terms and conditions. See Note [X] to the financial statements for additional information.]*

#### CARES Act Grants (PRF, HEERF etc.)

*We have provided you with access to all information and documentation related to funding received, including our policies and procedures for recognizing the related revenue, receivables and refundable advances included within the financial statements.*

*We have complied with all aspects of the terms and conditions of received grants and contributions. We are responsible for the accuracy and propriety of all*

*reporting requirements regarding the use of the funds. We believe that all costs reflected in such reports are appropriate and allowable under the terms and conditions. The allocation methodologies and principles employed to allocate funds are in accordance with applicable rules and regulations.*

#### Paycheck Protection Program (PPP)

*The Company accounts for its Paycheck Protection Program (PPP) loan as a governmental grant as addressed in FASB ASC 958-605. PPP conditional advance payments are reported as a refundable advance until conditions are substantially met or explicitly waived. The Company recognizes forgiveness as qualifying expenditures are incurred. The Company meets PPP eligibility and necessity requirements and has appropriate allowable expenditure supporting documentation for recognized forgiveness revenue. Subsequent to year end, the Company received notification that the PPP loan was fully forgiven by the Small Business Administration.*

*[If loan is still outstanding - forgiveness application in process]*

*We received a \$\_\_\_\_\_ loan under the Paycheck Protection Program (“PPP”), administered by the Small Business Administration (“SBA”) and established by the Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The application for the PPP Loan requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operation of the Company/Organization. We believe we have met these requirements. We have determined that loan should be accounted for under [Choose one -> ASC 470/IAS 20/ASC 958-605/ASC 450-30/GASB TB 2020-1] of the accounting standards. We believe our accounting treatment and disclosures are appropriate in the circumstances. As of the date of this letter, we are unaware of any undisclosed facts or circumstances that will prevent us from receiving loan forgiveness.*

*[If loan is still outstanding – client has recorded the forgiveness into income]*

*We received a \$\_\_\_\_\_ loan under the Paycheck Protection Program (“PPP”), administered by the Small Business Administration (“SBA”) and established by the Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The application for the PPP Loan requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operation of the Company/Organization. We believe we have met these requirements. We have determined that loan should be accounted for under [Choose one -> ASC 470/IAS 20/ASC 958-605/ASC 450-30/TB 2020-1] of the accounting standards. We believe our accounting treatment and disclosures are appropriate in the circumstances. We believe we have incurred sufficient qualifying*

*costs and expenses necessary to qualify for forgiveness and have recorded into income the appropriate amount as permissible pursuant to the accounting standard selected above. As of the date of this letter, we are unaware of any facts or circumstances that may result in the loan forgiveness being challenged by the lender and/or the SBA.*

*[If loan is <\$2 million and loan was forgiven]*

*We received a \$\_\_\_\_\_ loan under the Paycheck Protection Program (“PPP”), administered by the Small Business Administration (“SBA”) and established by the Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The application for the PPP Loan requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operation of the Company/Organization. We believe we have met these requirements. We have determined that loan should be accounted for under [Choose one -> ASC 470/IAS 20/ASC 958-605/ASC 450-30/TB 2020-1] of the accounting standards. We believe our accounting treatment and disclosures are appropriate in the circumstances. We believe we have incurred sufficient qualifying costs and expenses necessary to qualify for forgiveness and have received notification through our lender that the SBA has forgiven our loan. While we do not expect the receipt of loan proceeds (or the forgiveness thereof) to be reviewed by the SBA, we are unaware of any facts or circumstances as of the date of this letter that suggest that it would not withstand such a review.*

*[If loan is equal to or >\$2 million and loan was forgiven]*

*We received a \$\_\_\_\_\_ loan under the Paycheck Protection Program (“PPP”), administered by the Small Business Administration (“SBA”) and established by the Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The application for the PPP Loan requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operation of the Company/Organization. We believe we have met these requirements. We have determined that loan should be accounted for under [Choose one -> ASC 470/IAS 20/ASC 958-605/ASC 450-30/TB 2020-1] of the accounting standards. We believe our accounting treatment and disclosures are appropriate in the circumstances. We believe we have incurred sufficient qualifying costs and expenses necessary to qualify for forgiveness and have received notification through our lender that the SBA has forgiven our loan. We recognize our loan is subject to future audit by the SBA and have appropriately included a contingency note in our financial statements. We will continue to disclose this fact until such time as the SBA renders a conclusion on its audit finding or informs us we are no longer subject to an audit. As of the date of this letter, we are unaware*

*of any facts or circumstances that suggest that the forgiveness of our loan will not withstand review by the SBA.*

## Going Concern

*The consolidated financial statement disclosures for liquidity, subsequent events and related party transactions disclose all of the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, and management's plans.*

*We do not believe there is substantial doubt about our ability to continue as a going concern through one year after the date the consolidated financial statements were available to be issued, and we have disclosed to you our plans and other relevant information that may have a bearing on that determination.*

*The methodologies and underlying assumptions (as well as the related application of these methodologies and assumptions) used in estimating fair value of the Company's reporting units for purposes of performing the annual goodwill impairment test have been consistently applied and are reasonable based on historical data and trends for the Company's reporting units and the industry and market at large, as applicable, and such methodologies and assumptions reflect our consideration of the reporting unit's current marketplace, competitive, and economic information, and reflect management's intent and ability to carry out the current operating plan for each reporting unit (as applicable).*

## Other COVID-Related Impacts on Representation Letters

A common issue encountered by auditors is an inability to obtain a physically signed representation letter due to pandemic-related limitations. Electronic signatures are acceptable if auditors can obtain appropriate evidence of management's receipt and acknowledgment of the representations — in other words, confirmation that the signatory knowingly and willingly signed the representation letter. Whether auditors accept electronic signatures, scanned images of signatures, and so on, is a matter of firm risk management practices as well as applicable state laws or regulations addressing legal acceptability of electronic signatures.

Another common issue is an inability for clients to put the representation letter on company letterhead due to office closures. The audit standards do not require that the representation letter be printed on letterhead. This is typically a firm quality control policy and firms will need to consider how the current environment affects that policy. As a matter of best practice, clients can note the company name and address at the top of the plain paper representation letter.

## Conclusion

The audit standards provide significant latitude for the auditor to request additional management representations. Both the COVID pandemic and its impact on operations as well as the unique funding from government stimulus laws may trigger consideration of additional representations that can assist the auditor in obtaining sufficient appropriate evidence.

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