



## **THE FINANCIAL MANAGEMENT IMPLICATIONS OF CORONAVIRUS**

**New**  
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This guide was created by the Business and Management Faculty. The Faculty is recognised internationally as a source of expertise on financial management issues. The Faculty creates a mix of practical resources to equip finance professionals to help the performance of the businesses they work in and also help them meet their personal CPD responsibilities. To connect with like-minded professionals within this community and, to gain access to the full suite of exclusive resources, visit [icaew.com/joinbam](https://www.icaew.com/joinbam).

### **FINANCIAL MANAGEMENT – THE ART OF THE POSSIBLE**

Finance professionals are key in supporting their businesses through the Coronavirus (COVID-19) crisis. Most will be urgently working through the issues and helping their businesses respond. This guide to financial management responds to member feedback and aims to help members consider the actions they may need to take. We realise these are stressful times which have no precedent. Some options may be appropriate for your circumstances, but this may not always be the case. We also know members are resourceful, adaptable and innovative in times of crisis. ICAEW's vision is 'A world of strong economies' and now is the time when the profession can show leadership in protecting economies when they are at their most vulnerable.

We will continue to listen and evolve this, and other guides based on the feedback, which you can provide by completing [this form](#) on our website.

### **PRIORITISED, SUPPORTIVE, WELL COMMUNICATED RESPONSE FROM FINANCE REQUIRED**

Although this guide focuses on financial management, dealing with the Coronavirus pandemic requires a holistic response and careful prioritisation. Adding unnecessary tasks and complexity to overwhelming circumstances will not be helpful. Therefore, financial management actions and process changes should be designed to support business managers and staff, who will all be under pressure. Also be aware that while finance is adept at providing rational, evidence-based advice, this advice will be provided in a context which may be highly emotionally charged. Finance must 'do the right thing' but in an understanding way. Fundamental to this will be clear, consistent communication which is sympathetic and explains why certain actions are being taken.

### **CHECK GOVERNMENT SUPPORT BEFORE ACTING**

Finance professionals should bear in mind that while survival of their own business will be the priority, they also need to consider the public interest and should therefore take account of the knock-on effects to customers, suppliers, employees and other stakeholders. Cash flow management and obtaining financial support where necessary will be fundamental but businesses

will also need to consider providing support to employees, customers and suppliers. Check what **government support** is available before making decisions.

## KEEP ON TOP OF NEW INFORMATION

Significant uncertainty will remain around the impacts of the virus and how long those impacts will last. Also, government social, business and economic policies are changing rapidly. Therefore, finance will need to help businesses digest new information quickly and act swiftly as circumstances change. Judging the veracity of information is essential. Preference should be given to reputable, verifiable sources. Social media and informal conversations can provide quick insights and be more localised but need to be treated with caution. Check government advice on all aspects of the pandemic – for the UK see [gov.uk/coronavirus](https://www.gov.uk/coronavirus).

## MEMBER SUPPORT AND ICAEW CORONAVIRUS HUB

Chartered accountants will play a critical role in minimising the financial distress to businesses and the wider public, and we are committed to giving our members the support they need at this time. ICAEW is **updating its website daily** and have a **dedicated hub on coronavirus** with the latest advice and guidance on topics such as how to access government business support, practical insight on financial management and supply chain issues, and regulatory matters including tax and business filings.

## GETTING SUPPORT FROM A CHARTERED ACCOUNTANT AND WRONGFUL TRADING

Those who need support from a trusted business adviser should access our [directory of ICAEW Chartered Accountants](#). You should also seek professional advice if you are concerned about wrongful trading (if a director concludes or should have concluded that there is no reasonable prospect of avoiding insolvent liquidation or administration, under a **balance sheet test**, and does not take every step that the director ought to take to minimise potential loss to creditors) or trading insolvently – see [Directors' responsibilities if a company is in financial difficulty](#).

## SYSTEMATIC APPRAISAL OF CURRENT CIRCUMSTANCES AND FUTURE SCENARIOS

Thinking clearly under pressure is essential in a crisis. Finance professionals and their teams have the skills and attitudes necessary to carry out a systematic appraisal of current circumstances and map out a range of future scenarios including their financial implications. Judgement will be needed to balance speed and accuracy in producing these scenarios. Broad brush assumptions, that may have sufficed in normal times, will need to be checked. But scenarios will need to be updated quickly to support urgent decisions.

Many of the circumstances to consider are well publicised, but include:

- Workforce changes – shortages, sick-pay, reduced pay, lay-offs, hours, homeworking, caring for dependents, travel and expenses
- Demand for products and services
- Customers' ability to pay
- Supply chain issues
- Contractual obligations, voluntary waivers and force majeure – Allen and Overy have a useful [Coronavirus checklist from a legal perspective](#)
- Inventory - surpluses, shortages, perishability and valuation
- Finance availability - government, banks and alternative sources of finance
- Bank covenants
- Financial changes – tax, business rates, interest rates, currency rates, commodity prices, insurance premiums
- Stock market movements – financial buffers, pension fund liabilities

Many challenges from Coronavirus are being felt immediately but others will take time to filter through. Therefore, when feasible, map out how changes in one part of the economy may eventually impact your business.

## FINANCIAL MANAGEMENT CHECKLIST

The circumstances of your business will be unique, so judgment is required in selecting which ideas below need to be acted on.

Area	Considerations
<b>Prioritisation and communication</b>	
Ensure any financial management actions and process changes are essential for the future of the business	<ul style="list-style-type: none"> <li>• Confer with business managers to understand challenges and needs</li> <li>• Consider finance processes that can be eased or delayed without damaging the business or risking control breakdowns</li> <li>• Carry out tasks within finance where possible rather than adding to the workloads of other departments</li> <li>• Make any actions or process changes as easy as possible for business managers to carry out</li> <li>• Identify and draw on crisis management experience including that of non-executives</li> </ul>
Adapt management information to reflect current circumstances	<ul style="list-style-type: none"> <li>• Provide frequent updates on cashflow, financing, debts, the status of customers and key suppliers</li> <li>• Drop requests for management information that is irrelevant in current circumstances</li> </ul>
Ensure clear, concise, consistent communication of actions and changes	<ul style="list-style-type: none"> <li>• Brief all finance staff so they give consistent messages internally and externally</li> <li>• Select and use appropriate communication channels</li> <li>• Update relevant intranet pages and provide answers to frequently asked questions</li> <li>• Keep the board and audit committee informed – this needs to be carefully managed but do not wait for formal meetings</li> <li>• Provide briefings to anyone able to commit the company to sales, purchases or other financial commitments</li> </ul>
Pay and incentive schemes	<ul style="list-style-type: none"> <li>• Note uncertainty around pay and incentives, with the likelihood of lower reward, will impact on morale and business performance. People may be working harder for potentially less income</li> <li>• Work closely with HR on possible scenarios and communicating with staff affected.</li> </ul>
<b>Cash flow and liquidity</b>	
Update cash flow and liquidity forecasts and consider increasing frequency of production	<ul style="list-style-type: none"> <li>• Think through all impacts on cashflow including indirect impacts</li> <li>• Use terminology and presentation which is accessible to non-financial managers and aids decision-making – managers who have never previously focused on cash flow may now get involved</li> <li>• At a minimum, prepare most likely and worst-case scenarios, highlighting pinch points. Note key assumptions and sensitivities, accepting there is currently little consensus on depth and duration of the crisis</li> <li>• Revisit seasonality assumptions</li> <li>• Report weekly periods at minimum, some businesses may need daily</li> <li>• Move reporting to a rolling basis</li> <li>• Include the impact of business continuity and contingency plans, noting these may require cash outlays</li> </ul>
Consider immediate cash savings available, bearing in mind impact on customers, suppliers and workforce	<ul style="list-style-type: none"> <li>• Consider wider impacts of cost saving actions on stakeholders and long-term viability of the business</li> <li>• Review all revenue and capital expenditure types for potential savings</li> </ul>

- Check whether **Government help** is available to reduce cash flow problems and reduce the need to immediately cut or delay cash outlays
- Include outlays required to achieve cash savings eg, staff pay-offs
- Include cash savings which may arise automatically through things like travel bans and event cancellations
- Consider reducing customer delivery frequency
- Exercise any rights to refunds and ensure received
- Consider approaching pension funds to obtain payment holidays

NB: ICAEW has backed **calls from the Small Business Commissioner** for big businesses to speed up payments to small business suppliers wherever they can.

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#### Consider generating short-term cash

NB: Clearly difficult in current environment

- Consider offers, discounts and vouchers to shore up demand and generate income
- Consider selling assets, albeit at risk of distressed prices and difficulty in executing if potential buyers cannot visit to view items

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#### Finance function operations

- Find new ways for paper-based processes such as cheques, invoices etc going to offices and factories that may be temporarily closed
- Consider mail redirection services
- Set up new ways to access payments and carry out banking necessities eg, obtain and provide banking details for on-line payments – however, manage increased security risks and single authorisation risks
- Note IT consultants may be able to set up access to systems at home relatively quickly
- Establish dual teams to process and authorise payroll and associated payment to cover potential staff absence

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#### Working Capital and short-term finance

NB Businesses making increased sales due to the Coronavirus will need to increase working capital.

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#### Short-term finance

- Check your banks website for Coronavirus guidance and help for companies in difficulty
- If you have concerns, contact your bank sooner rather than later but ideally with a clear plan of action. It should be an easier conversation if you still have some financial flexibility. Note you may be referred to another part of the bank than your normal point of contact.
- Be as prepared as possible to talk with banks who initiate contact
- Ensure amount and terms of available credit lines are fully understood – companies are already drawing down on overdrafts and revolving credit lines
- Consider the additional financing options banks and others are offering eg, asset financing, invoice discounting, sale and lease back
- Make sure owner managers considering funding the business out of personal resources and assets seek independent professional advice
- Review the **ICAEW/Business Bank Business Finance Guide** for additional options

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#### • Government help

NB: ICAEW guidance on what is available in the UK is available **here**. This will be updated as new government information is made available. UK government information is accessible from **[gov.uk/coronavirus](https://www.gov.uk/coronavirus)**

- Be fully aware of government and local authority support in your country - policies are changing daily. Support may include grants, loans, corporate financing for larger firms, wage support, tax breaks, tax payment delays, statutory sick pay cover and employee welfare benefits
- Before making difficult to reverse decisions concerning staff, customers and suppliers check eligibility for government support
- Note even government backed loans will still need to be repaid
- Importantly, start gathering the documentation and information you may need to access help for example, proof of identity, company registration, accounts filings, bank statements, asset valuations for collateral purposes, a plan with associated financials to support loan repayment

	<ul style="list-style-type: none"> <li>Note central bank support to the economy, banks and financial institutions to help overall liquidity and help official rate reductions to filter through to lending rates for business – in the UK see <a href="http://bankofengland.co.uk/coronavirus">bankofengland.co.uk/coronavirus</a></li> </ul>
Inventory	<ul style="list-style-type: none"> <li>Consider whether to increase inventory to cope with further disruption, without panic buying or over-extending the business</li> <li>Consider selling at a discount to generate cash</li> <li>Review inventory valuations for any impact on cash flow forecasts</li> </ul>
Debtors	<ul style="list-style-type: none"> <li>Increase monitoring of late payments and consider advice from the <a href="#">Small Business Commissioner</a></li> <li>Check contract details, invoice accuracy and any internal issues where late payments are identified or anticipated</li> <li>Contact and agree action plans with key customers that may be in difficulty</li> <li>Consider changes to credit terms – being more flexible to support customers where possible but tightening or moving to cash upfront where necessary.</li> <li>Consider discounts for early payment</li> </ul> <p>NB: On 6 April 2020, ICAEW is convening a webinar with the small business commissioner – to join us, sign up <a href="#">here</a>.</p>
Creditors	<ul style="list-style-type: none"> <li>Consider changes to supplier credit terms – being more flexible to support suppliers where possible but taking advantage of full credit terms where necessary</li> <li>Contact suppliers where you may have difficulties in paying, ideally with a prepared action plan and negotiating position</li> </ul>
<b>Medium and long-term finance</b>	
Debt	<ul style="list-style-type: none"> <li>Consider taking advantage of low interest rates</li> <li>Do not over-extend the business</li> </ul>
Equity	<ul style="list-style-type: none"> <li>Keep shareholders informed of circumstances</li> <li>Consider asking for a capital injection, albeit unlikely to be available</li> </ul>
Dividend policy	<ul style="list-style-type: none"> <li>Consider reduced dividend</li> <li>Review distributable reserves and ability to pay</li> <li>Note dividend yields are higher given stock market falls</li> </ul>
<b>Financial obligations</b>	
Bank covenants	<ul style="list-style-type: none"> <li>Review bank covenants</li> <li>If breaches likely, communicate with banks, with clarity on help needed and a clear plan to address</li> <li>Note you may end up talking with another part of the bank whose objectives and risk appetite may differ from your relationship manager</li> <li>Update collateral valuations based on latest information</li> </ul>
<b>Risk Management</b>	
General risk management	<ul style="list-style-type: none"> <li>The principles of avoid, mitigate, transfer and manage are still helpful</li> <li>Update risk registers and reprioritise</li> <li>Discuss risk appetite at executive level</li> <li>Ensure those responsible for addressing key risks are still able to do so</li> <li>Ensure two-way communication around new risks arising and changes to risk profile</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>Note most policies will not cover Coronavirus, but the UK government has confirmed policies for both pandemics and government-ordered closures should be covered – see <a href="#">Association of British Insurers Coronavirus Q&amp;A</a></li> <li>Check terms carefully, speak to insurers where unclear</li> <li>Note insurers increasingly closing off availability of certain types of insurance e.g. travel insurance and event insurance</li> </ul>

Currency risk	<ul style="list-style-type: none"> <li>• Re-analyse exposures and consider any new hedges needed</li> <li>• Include consideration of currency positions which may have changed due to changes in matches between income and expenditure or changes in suppliers</li> </ul>
Fraud, scams and cyber attacks	<ul style="list-style-type: none"> <li>• Note the number of attempts may increase</li> <li>• Manage risks which may increase due to changes in working practices.</li> <li>• Ensure continued vigilance if at all possible</li> </ul>
Supply chain	<ul style="list-style-type: none"> <li>• Make sure you understand who your most critical suppliers from a cashflow and profitability perspective are</li> <li>• Monitor as carefully as possible, bearing in mind difficulties of looking at suppliers many steps removed in the chain and based in other countries</li> <li>• Contact critical suppliers but be clear about what you need to know and do not burden them with unnecessary bureaucracy</li> <li>• Research alternative sources of supply, preferably in a new geography, ensure they have been risk assessed and be ready to onboard quickly</li> </ul>

NB: On 1 April 2020, the Business and Management Faculty is convening a webinar on the Covid-19 impacts on supply chain and financial performance - to join us, sign up [here](#).

### Financial controls

Ensure controls remain robust considering changes to operations and company policies	<ul style="list-style-type: none"> <li>• Do not impose unnecessary bureaucracy</li> <li>• Explain reasons for changes to get buy-in</li> <li>• Additional record keeping may be necessary for any unusual transactions or agreements used to cope with the crisis e.g. payments in kind, contra agreements, voucher offers and postponements</li> <li>• Where systems are unavailable set up alternative procedures and templates for record-keeping</li> </ul>
Authorisation of expenditure and expenses policies	<ul style="list-style-type: none"> <li>• Balance the need for greater control with the need to respond quickly to new circumstances e.g. authorising new suppliers</li> <li>• Ensure sign off levels appropriate to changed circumstances</li> <li>• Review staff expenses policy in respect of changed working practices and circumstances eg, what needs to be pre-authorised</li> <li>• Communicate any changes and re-enforce policies that may now be particularly relevant eg, homeworking expenses</li> </ul>
Reconciliations and substantiation	<ul style="list-style-type: none"> <li>• Increase frequency and rigour of balance sheet reconciliations and substantiation to validate cash flow forecasts</li> <li>• Review sundry debtors for collectability</li> </ul>
Internal recharges	NB: discussions of recharges may become particularly heated if the burden of the crisis is seen to be unfairly distributed, therefore adjust policies if necessary
Holiday accruals	May need to be adjusted if material changes

### Strategising, planning and budgeting

Strategising	<ul style="list-style-type: none"> <li>• Protect firm reputation and license to operate</li> <li>• Slow strategic initiatives and expansion plans where necessary</li> <li>• Be alert to opportunities e.g. wider acceptance and use of on-line services such as virtual training, retail delivery, on-line banking</li> <li>• Be alert to new acquisition and investment opportunities</li> <li>• Consider supply chain diversification</li> <li>• PESTLE (political, economic, societal, technological, legal and environmental circumstances) and SWOT remain useful tools for considering the current environment (click <a href="#">here</a> for further resources)</li> </ul>
Planning and budgeting	<ul style="list-style-type: none"> <li>• Review planning and budgeting cycle and most appropriate timing of work and time horizon</li> <li>• Consider how budgets need to be reallocated to match changed priorities</li> <li>• Click <a href="#">here</a> for further resources</li> </ul>

ICAEW is conscious the situation is fast moving and want to harness your insights and expertise for the benefit of the wider profession and coronavirus preparedness across the economy. If you have any ideas for additional support, guidance or insights please [complete this form on our website](#).

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Over 181,500 of these are ICAEW Chartered Accountants and students. We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We've been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

[www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)

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