

COVID-19 Update

March 30, 2020

The global Covid-19 pandemic is significantly impacting Canadian reporting issuers and their auditors. The Canadian Public Accountability Board (CPAB) has been active in identifying the challenges that auditors are facing during this period of unprecedented disruption.

We also believe it is important to be aware of the significant impact the disruption is having on people. The health and well-being of staff at reporting issuers and the audit firms needs to be a primary consideration in responding to the new challenges.

Below are some important areas for auditors to consider as they design their audit approaches.



Completion of year-end financial statements and the audit

The Canadian Securities Administrators (CSA) has provided a 45-day extension for financial statements and other periodic filings normally required to be made by issuers, investment funds, registrants, certain regulated entities and designated rating organizations on or before June 1, 2020.

The completion of high-quality audits under current circumstances may require additional time, which may, in turn, impact reporting deadlines. Auditors need to ensure they have obtained sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement before completion of the audit. When additional time is needed, the auditor should communicate the need to delay audit completion to the reporting issuer's audit committee.



Inventory counts

For reporting issuers with year ends in March or later, the closure of non-essential businesses will make the auditor's observation of a year-end inventory count challenging or even impossible. Auditors will need to consider performing alternative procedures to verify the existence and condition of inventories at the reporting date.

To deal with these challenges, some auditors are considering observing the counts remotely through video feeds, relying on managements' inventory cycle counts, or observing inventory counts at a date subsequent to the year end and performing roll back procedures to the financial reporting date. When video feeds are used, auditors should consider the incremental risks associated with adopting this approach, including the risk of fraudulent activity.

When the necessary evidence about the inventory cannot be obtained, auditors should consider whether this represents a scope limitation in their audit. Reporting issuers and their auditors should consult with the relevant provincial securities commissions on any potential scope limitations.



Subsequent events

Auditors have been considering whether the impact of the COVID-19 outbreak represents a subsequent event that requires adjustment of, or disclosure in, the financial statements. The American Institute of Certified Public Accountants' Center for Plain English (CEPA) has issued a [practice note](#) which asserts that for 2019 financial statements with calendar year ends, Covid-19-related subsequent events are not likely to be adjusting events.

Auditors will also need to assess whether the disclosures provided by the entity on the impact, both qualitatively and quantitatively, of the Covid-19 outbreak on its activities, financial situation and future economic performance are appropriate.



Going concern

The current outbreak and associated financial crisis will have a significant impact on the viability of many reporting issuers. For those companies where the going concern basis of accounting remains appropriate, some may need to disclose material uncertainties that cast significant doubt about their ability to continue as going concerns.

We remind auditors that their evaluation of management's going concern assessment includes a consideration of all available information up to the date of the audit report. It is likely that management of several companies will be facing pressures and competing priorities which may impact their capacity to perform rigorous going concern assessments. We also expect that there will be significantly more estimation uncertainty associated with managements' cash flow forecasts.

When material uncertainties exist related to the impact of Covid-19 that cast significant doubt on a company's ability to continue as a going concern, auditors should carefully evaluate whether the company's disclosures adequately and transparently highlight those uncertainties.



Other implications of performing an audit remotely

The transition to performing an audit remotely will create new challenges. Access and travel restrictions as well as the limited availability of personnel due to health considerations will change the information available to auditors and the nature of procedures that can be performed. Auditors will need to consider how they will:

- Maintain sufficient professional skepticism given that the nature and extent of their interactions with reporting issuers will change in remote audits.
- Evaluate the quality of audit evidence obtained electronically. Auditors carrying out remote audits will often be relying on company management to scan original documents and records. Auditors should evaluate the quality of this evidence and exercise professional skepticism given the greater proportion of the audit evidence received electronically. Auditors using this evidence may find it necessary to perform further procedures to verify the authenticity of the documents including confirming the documents with third parties.

- Adapt the approach for group audits when access to the audit work of component auditors becomes impracticable. Auditors may consider alternative means of reviewing the work of component auditors, including through the use of technology, to the extent possible.

CPAB, in cooperation with participating audit firms, standard setters and regulators, will continue to monitor audit issues arising from the Covid-19 outbreak. We anticipate regular discussions across all of these groups and will issue observations from these discussions. We encourage all stakeholders to be involved in this ongoing dialogue.