



COVID-19 public company audit implications: considerations for audit committees

OVERSEEING AUDIT QUALITY DURING A GLOBAL PANDEMIC

The global COVID-19 pandemic continues to significantly impact Canadian reporting issuers and their auditors. The Canadian Public Accountability Board (CPAB) is focused on audit quality and protecting the investing public during this crisis. In coordination with the audit firms we regulate, the accounting profession, standard setters and other regulators in Canada and abroad, CPAB is actively identifying the challenges auditors are facing and providing our perspectives on key issues related to the performance of high-quality audits.

It is important that the quality of audits is not compromised by these challenges, and that care is taken by auditors to properly assess the accounting and disclosures made by Canadian reporting issuers. CPAB's **Audit Quality Insights Report: 2019 Annual Inspections Results** includes sections on a number of audit quality matters that are particularly relevant in the current environment, including going concern and professional skepticism. We encourage audit committee members to read this report and to visit our **COVID-19 page** on our website.

Audit committees play a critical role in overseeing the external audit. They are sharing the issues they are encountering and their perspectives with CPAB on how the audit industry is responding to the crisis. Our conversations indicate that management and auditors have responded quickly and effectively to the challenges encountered to date.

Still, we are at the start of this journey and anticipate continued stresses and challenges. A longer-term response will require the continued efforts of all key stakeholders in the financial reporting supply chain, including audit firms, audit committees, regulators and standard setters.

While we acknowledge that the situation is highly fluid, and that new issues and risks will emerge over time, CPAB encourages audit committees to consider the following areas that could impact the quality of public company audits in Canada and discuss with their company management and audit teams.

Audit area	Issue	Implication	Response
<p>Internal controls</p>	<ul style="list-style-type: none"> Working remotely has led to changes to public company internal controls over financial reporting (including changes to how controls operate in a remote environment and the creation of new controls). 	<ul style="list-style-type: none"> Evaluation of the impact of changes to internal controls is important. Documentation and testing of the effectiveness of new or amended internal controls will take time. 	<ul style="list-style-type: none"> Use internal audit to evaluate new or amended controls. Evaluate internal controls early enough to allow for remediation of deficiencies prior to year end.  <p>Several companies are evaluating what disclosure is necessary in public filings about changes in internal controls in conjunction with their certifications under National Instrument 52-109.</p> 
<p>Fraud</p>	<ul style="list-style-type: none"> Increased fraud risk factors due to COVID-19: <ul style="list-style-type: none"> Pressures on management to improve earnings and liquidity. Shifting of resources and changes to working procedures provides increased opportunity. 	<ul style="list-style-type: none"> Strong internal controls protect against fraud. Careful consideration by the auditor of pressures and opportunities and how the audit should be adjusted in response. 	<ul style="list-style-type: none"> Early evaluation of new or amended internal controls (by internal and external auditors). Increased involvement of fraud specialists by the external auditor.
<p>Complex/new accounting issues</p>	<ul style="list-style-type: none"> COVID-19 introduces a large number of complex accounting issues including going concern/liquidity evaluation, complex valuations and accounting estimates, impairment evaluations and accounting for new government programs among other industry-specific issues such as estimating credit losses for financial institutions. 	<ul style="list-style-type: none"> The increase in complexity and judgment creates additional risk of error. Evaluation of future estimates and judgments can be complex and require the extensive use of experts (internal and external). 	<ul style="list-style-type: none"> Scheduling of additional board and committee meetings including extra information sessions (some being joint meetings of risk and audit committees) to discuss the impact and background prior to meetings where financial reports are approved.  <p>Auditors and audit committees should involve internal and external experts early. Engagement of the auditor to perform interim reviews and to perform audit level work during the quarter can reduce the risk of an error identified in a subsequent period.</p> 

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<p>People</p>	<ul style="list-style-type: none"> • The pandemic is changing how everyone works. • Individuals have different stresses and commitments. 	<ul style="list-style-type: none"> • Additional stresses can impact capacity and efficiency in addressing complex issues, increasing risks. 	<ul style="list-style-type: none"> • Audit firms and public companies (including audit committees) should closely monitor the impact on their resources, including understanding of personal commitments. • Increased supervision and review (at audit firms and reporting issuers) are critical in managing risks during the pandemic.
<p>↳ Consider use of audit quality indicators to identify issues early – examples include per cent of partner hours to support supervision and review, number of hours of overtime by management and audit staff to monitor impact and capacity. ↳</p> 			
<p>Project management</p>	<ul style="list-style-type: none"> • Increased complexity of the financial reporting and audit process due to: <ul style="list-style-type: none"> • People working from home. • Adoption of new or amended controls and processes. • Increased complexity and volume of accounting issues. • This increases the need for strong project management of the financial reporting and audit processes. 	<ul style="list-style-type: none"> • Audits in the current environment will be more complex and take more time. • Significant delays in work performed by management or the auditor can impact the timing of completion of work and required filings. 	<ul style="list-style-type: none"> • Increased need for audit committees, auditors and management to use project management. • All stakeholders need to carefully monitor progress to identify any changes needed to the timing of reporting and key deliverables.
<p>↳ Leading indicators could include progress on milestones by management and auditor; per cent of audit hours during interim and planning compared to a target. ↳</p> <p>↳ We are hearing some reluctance from public companies/audit committees to change their timing of release of financial statements. Given the significant stress on the system and increased complexity, we think audit committees should ask whether delays are necessary to support high quality work by management and auditors. Additional time taken now can reduce the risk of subsequent restatement. ↳</p> 			

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<p>Changes to audit and review procedures</p>	<ul style="list-style-type: none"> • Certain procedures can no longer be performed in person (examples include physical attendance at inventory counts, inspection of original documents, in-person walk-throughs of internal controls), leading to changes in the audit approach. 	<ul style="list-style-type: none"> • Essential to understand amended or omitted procedures. 	<ul style="list-style-type: none"> • Audit firm leadership and audit committees should consider how auditors are maintaining/strengthening professional skepticism in a remote environment. • Evaluate the impact of revised audit procedures on audit quality.
<p>Foreign jurisdictions audit work</p>	<ul style="list-style-type: none"> • The impact of physical distancing will be different around the world. • The ultimate impact to management and auditors in foreign jurisdictions will affect the quality of information and work performed to differing degrees as well as quality of information received from third parties like suppliers and customers. 	<ul style="list-style-type: none"> • Management and auditors will need to respond to the changes in the nature of work and evidence available to them. 	<ul style="list-style-type: none"> • Auditors and management are increasing the use of technology to communicate with local management and auditors. • Audit committees should evaluate how they are staying close enough to local management and auditors in foreign operations and understanding how local circumstances have changed.

🔗 Audit committees may request to meet by video with local management and/or the local audit partner/audit team to discuss how they are responding to the current environment. 🔗



CONTINUING THE CONVERSATION

We look forward to continuing the conversation with audit committees to understand the impact of COVID-19 on audits.

For more information, visit www.cpab-ccrc.ca/insights/COVID-19 or email us at stakeholderengagement@cpab-ccrc.ca.

Learn More

Visit us at www.cpab-ccrc.ca and join our mailing list. Follow us on Twitter — @CPAB-CCRC

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