Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

COVID-19 Update

April 21, 2020

The global COVID-19 pandemic continues to significantly impact Canadian reporting issuers and their auditors. The Canadian Public Accountability Board (CPAB) is actively identifying the challenges that auditors are facing during this period of unprecedented disruption. This update focuses on going concern and the status of securities filings, two topics we have been discussing frequently in recent weeks.

CPAB, in cooperation with participating audit firms, standard setters and other regulators, continues to monitor audit issues arising from the COVID-19 pandemic. We encourage all stakeholders to be involved in this ongoing dialogue.

Going concern

The financial instability brought on by COVID-19 is generating significant dialogue about going concern risk. This communication focuses on some of the key issues and challenges that we expect auditors will encounter in addressing the needs of financial reporting users for high quality information in this area.

Management teams that have not experienced financial distress before may find themselves on unfamiliar footing in the current climate. They may not be aware they need to prepare a detailed assessment to address going concern risk when it is significant, and that, the auditor is obliged to ask them to prepare one. The auditor is responsible for challenging management's assessment and needs to obtain sufficient and appropriate audit evidence to conclude on the reasonableness of management's assessment. We encourage disclosures about material uncertainty and significant judgments that are specific to the reporting issuer and meaningful to users.

Management's role

Reporting issuers across our economy may now need to deal with going concern as a significant risk. IAS1.26 recognizes the need to consider the specific facts of each case in assessing going concern and notes that entities with "a history of profitable operations and ready access to financial resources" may not need to perform a detailed analysis. For the time being, a history of profitable operations may not be indicative of future earnings.

Where going concern risk is significant, IAS1.26 notes the need for management to perform a detailed analysis and consider "a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate." Management has the most relevant information to assess the reporting issuer's future performance and viability and needs to take the first step in assessing going concern.

CAS 570.12 requires auditors to "evaluate management's assessment of the entity's ability to continue as a going concern." It is not the auditor's responsibility to rectify the lack of analysis by management (CAS 570.A9). If management has not prepared a sufficient going concern assessment when the auditor believes it is warranted, auditors will need to request this from management.

Auditor's role in challenging management's assessment

The current uncertainty and remote working conditions make it particularly difficult to assess the reliability of management's projections. Securities regulators have recently provided reporting issuers with the ability to take additional time to file their audited financial statements. Auditors may need to set expectations with their reporting issuers that some of the additional time will be necessary to obtain sufficient and appropriate audit evidence to conclude on going concern risk. We expect that going concern-related work may often need to be more extensive and may require different evidence. We also remind auditors that, consistent with CAS 560.4 (Subsequent Events), the going concern analysis should continue to be performed up to the date of the auditor's report.

CAS 570.15 requires auditors to inquire of events and conditions beyond the period of management's assessment that may cast significant doubt on going concern. We encourage auditors to explicitly consider the interrelationship of liquidity and solvency factors. For example, assumptions and judgments in the forecasts, which are being adversely affected by COVID-19, could affect a reporting issuer's longer-term solvency; in some cases, the outlook for their long-term prospects could also have an impact on short-term liquidity. The borrowing arrangements of reporting issuers and evidence that supports the mitigation of potential covenant breaches could be important areas to consider.

Given the constantly changing outlook, auditors may no longer be able to reasonably evaluate the reliability of budgets through back-testing. The Bank of Canada recently noted that the timing and strength of the recovery cannot be forecast "with any degree of confidence" in light of the uncertainty surrounding the COVID-19 crisis. However, auditors can continue to challenge management on the key factors considered in deriving inputs and assumptions for their projections. They can also critically evaluate management's assumptions along a spectrum from optimistic to conservative, understand how assumptions and budgets have been prepared and reviewed (including the oversight from those charged with governance), and consider additional facts or external information that has become available after the date of their assessment.

We acknowledge that management's base case forecast will likely resemble more of a downside case in the nearer term. It will be important to consider how management has stress tested its projections or considered alternative scenarios if things do not go as planned. Auditors should also consider whether management's analysis of going concern is balanced and goes into sufficient depth.

Disclosures − material uncertainties and significant judgments

We expect material uncertainties will be more frequently cited due to COVID-19. Disclosures for significant judgments where there is significant doubt, but no material uncertainty, are also likely to be more prevalent.

Management should take steps to avoid the use of generic material uncertainty disclosures that will not be helpful, as the terminology may not be widely understood. To ensure they benefit users, auditors should encourage disclosures, whether due to material uncertainty or significant judgments (as required by IAS1.122), to be as specific as possible to the facts and circumstances of the reporting issuer.

Relevant information on assumptions and judgments should be disclosed. Plausible scenarios and events that could result in greater uncertainty, and the action being taken by the reporting issuer to plan and respond, could be informative to users. Current and potential cash resources, such as access to and use of existing and new financing facilities, revolving facilities, invoice discounting and reverse factoring would enhance the clarity of the nature of the action that could be taken. Significant COVID-specific assumptions, such as the duration of physical distancing and availability of government support, could be relevant to disclose as well. Auditors are encouraged to thoroughly review the relevant auditing standard and to consider using financial experts.

Update on securities filings

On March 23, 2020, the Canadian Securities Administrators (CSA) published blanket orders with substantively harmonized temporary exemptions to assist Canadian reporting issuers by extending the deadlines of certain regulatory filing requirements, including financial statements. The blanket orders are subject to conditions and only apply to certain filing deadlines that occur between March 23, 2020 and June 1, 2020. A notice containing the CSA's view on frequently asked questions about these exemptions was also issued. An issuer must meet specific conditions in the blanket orders to rely on the exemptions. Auditors should review the blanket orders and related materials on the applicable securities regulator's website. An example of one of the conditions is the requirement that the issuer must issue a news release in advance of the applicable filing deadlines and file it on SEDAR. The news release must specify the filings that the issuer will be relying on the exemptions for.

Other CPAB updates

CPAB, in cooperation with participating audit firms, standard setters and regulators, will continue to monitor audit issues arising from the COVID-19 outbreak.

Our 2020 inspections will begin shortly. For the immediate future, CPAB will conduct all inspections remotely; we will not perform any file reviews onsite. We will continue to be flexible in conducting these inspections in a manner that balances the need to fulfill our regulatory mandate while being sensitive to the additional strains the pandemic is placing on audit firms and their people.

Quality management systems assessments at the four largest firms will proceed as planned.

Learn more

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