

Audit & Assurance Alert

CANADIAN AUDITING STANDARDS (CAS)

AUGUST 2021

Audit Considerations Related to the COVID-19 Pandemic

This alert was originally published in August 2020 and has been updated to reflect new resources.

The COVID-19 pandemic is having significant effects on the operations, performance and cash flows of many organizations in Canada and globally.

We have highlighted below key considerations for auditors and references to relevant standards, as well as links to CPA Canada and other guidance to help manage some of the unique and difficult auditing issues related to COVID-19. The issues and appropriate audit response will vary depending on entity-specific circumstances.

The list of matters included is not meant to be exhaustive. Auditors should refer to applicable standards in their jurisdiction when developing the audit approach to address these and other matters.

Sufficiency and appropriateness of audit evidence

Despite the challenges presented by COVID-19 health and safety measures, auditors must still obtain sufficient appropriate audit evidence to support their audit opinion. Restricted / limited access to client premises, management and documentation may result in significant changes to the planned audit approach and reporting timelines.

There will also be an increase in audit evidence obtained electronically and it may not be practical to obtain evidence from sources used in previous audits, or such sources may no longer be reliable. Auditors may need to use other information sources when obtaining audit evidence. Auditors should maintain an appropriate level of professional skepticism and carefully evaluate the quality of electronic records and documentation. They should also consider the relevance and reliability of other information sources they use.

When conducting audit engagements remotely, observing physical inventory counts and obtaining responses to external confirmations may be particularly challenging and auditors may need to consider alternative procedures.

Relevant standards and guidance

CAS 500, *Audit Evidence*

CAS 501, *Audit Evidence – Specific Considerations for Specific Items*

CAS 505, *External Confirmations*

[Blog: The changing nature of audit evidence arising from covid-19](#)

[Blog: COVID-19 year-end reminders for auditors: Q&A with canada’s audit regulator](#)

[Audit considerations arising from changes due to COVID-19 \(IAASB\) \[PDF\]](#)

[FAQs – Audit matters and auditor reporting issues related to COVID-19 \(AICPA\)](#)

[Guidance for auditors on attendance at stocktakes during the coronavirus outbreak \(ICAS\)](#)

[COVID-19 – Challenges of physical inventory counts on March 31, 2020 \(CPA Québec\)](#)

Understanding the entity, its environment, and the planned audit approach¹

COVID-19 may have a significant effect on the risks of material misstatement of the entity’s financial statements. Auditors will need to consider the impact on risk assessments already made and on the planned audit approach of new or revised risks that have arisen because of COVID-19.

Auditors should also be on the alert for changes in the entity’s internal controls. If controls (including information processing or general IT controls and controls at service organizations) have changed significantly, auditors would need to evaluate how much reliance can be placed on those controls that were only in effect for a portion of the year. In light of remote working arrangements, attention should also be paid to increased susceptibility to digital access, privacy, or data storage breaches.

¹ The information contained within this section has been updated based on Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement*. Revised CAS 315 is effective for years beginning on or after December 15, 2021.

Even if there is no plan to test the operating effectiveness of controls, auditors should still ask about changes in the components of the entity's internal controls and are still required to obtain an understanding of identified controls relevant to the preparation of the financial statements. Inquiry may allow auditors to gather information about the design of a control, but inquiry alone is not sufficient to determine whether a control has been implemented. Auditors will need to consider what evidence can be obtained remotely to determine whether an identified control has been implemented.

Relevant standards and guidance

CAS 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, para. 12-24, para. 31.

CAS 330, *The Auditor's Responses to Assessed Risks*, para. A60.

[Implementation tool: The risk assessment process: Tips on implementing revised CAS 315](#)

[Implementation tool: Information technology: Why should auditors care? \(CAS 330\)](#)

[Implementation tool: Designing and performing tests of relevant controls \(CAS 330\)](#)

[Webinar: Special edition practitioner's pulse: Understanding Your Client - COVID-19 implications for internal controls](#)

[Blog: The effects of COVID-19 on your client, their internal controls, and the audit](#)

[FAQs - Audit matters and auditor reporting issues related to COVID-19 \(AICPA\)](#)

Accounting estimates

Auditors are required to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Accounting estimates are subject to estimation uncertainty, complexity and subjectivity (inherent risk factors).

The effects of the COVID-19 pandemic may result in increased estimation uncertainty and complexity resulting in increased inherent risk and risk of material misstatement. The auditor's procedures need to be responsive to the assessed risks of material misstatement at the assertion level, recognizing that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be.

CAS 540 recognizes that the exercise of professional skepticism in auditing accounting estimates is important when there is greater susceptibility to misstatement due to management bias or fraud. For example, there is emphasis on the fact that when evaluating whether sufficient appropriate audit evidence has been obtained the auditor must take into account all relevant audit evidence obtained whether corroborative or contradictory.

Relevant standards and guidance

CAS 540, *Auditing Accounting Estimates and Related Disclosures*, paras. 8, 18, 34, A11.

[Blog: Implementing the revised CAS 540 standard during COVID-19](#)

[Staff audit practice alert: Auditing accounting estimates in the current evolving environment due to COVID-19 \(IAASB\)](#)

Professional skepticism

The risk of material misstatement of financial statements may be significantly higher than in prior years; therefore, it is increasingly important for the engagement team to maintain an attitude of professional skepticism when performing the audit. In the current environment, auditors are likely to face many new or different audit issues. As a result, it will be even more important to exercise professional skepticism in responding to significantly changed circumstances which may affect such things as:

- The relevance and reliability of audit evidence
- Whether there are events or conditions casting doubt about an entity as a going concern
- Estimation uncertainty relating to accounting estimates
- The nature and extent of financial statement disclosures as a result of COVID-19.

It is also important to consider whether the audit strategy, including the composition of the engagement team and the nature, timing and extent of direction and supervision of engagement team members and the review of their work, needs to change as a result of the current environment.

Relevant standards and guidance

CAS 200, *Overall Objectives of The Independent Auditor and The Conduct of An Audit in Accordance with Canadian Auditing Standards*, para. 15 and A20-A24.

CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paras. 13-15 and A8-A10.

[Podcast: Professional skepticism in a remote working environment](#)

[Blog: Professional skepticism in a remote working environment: advice for auditors](#)

Material misstatement due to fraud

There may be an increased number of fraud risk factors affecting the potential for fraudulent financial reporting and misappropriation of assets. Such factors may arise because of changing conditions, including pressures and opportunities to commit fraud, and rationalization of acts of fraud. For example:

- Remote working arrangements and absences of key personnel may make it easier to circumvent normal approval and authorization policies and procedures.
- Management's process for identifying and responding to the risks of fraud may not be operating effectively, creating opportunities for fraud.
- Business disruption or closure in the industry or the overall economy may increase financial pressures.
- Attitudes and behaviours, such as disregard for inappropriate actions or tolerance of petty theft, may change during the COVID-19 pandemic.

CAS 240, *The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements*, also indicates that fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively.

Relevant standards and guidance

CAS 240, *The auditors responsibilities relating to fraud in an audit of financial statements*

[Implementation tool: Testing journal entries & responding to the risk of management override of controls \(CAS 240\)](#)

- Steps to test journal entries in response to risk of management override of controls in Diagram 2. (pg. 5)

[Blog: Auditing government assistance: are you prepared?](#)

Group audits

As the group auditor, the assessment of risks of material misstatement in the various components of the group may change when compared to the assessments at the start of the audit or in previous years due to COVID-19. In the current environment, there may be an increase in the number of components considered to be significant, with the result that the nature, timing and extent of audit procedures regarding these components may need to change.

Further, due to travel restrictions, the auditors may no longer be able to visit sites as part of the evaluation of the work of component auditors. If the components operate in areas where there are access restrictions, the group auditor will need to consider what alternative procedures may be carried out to obtain the necessary audit evidence. This may include, for example, performing

additional procedures remotely at the group level or having audit staff who are able to work in the component's jurisdiction to provide the group auditor with evidence requested.

Relevant standards and guidance

CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

[Audit & Assurance alert: Challenges in complying with group audit requirements \(CAS 600\)](#)

- Determining those components that are significant because of significant risks (pg. 2)

[Implementation tool: Determining the group auditors' involvement with component auditors \(CAS 600\)](#)

- Identifying and responding to significant risks of the group (pgs. 7-8)
- Communicating with the component auditors (pg. 8)
- Evaluating the component auditor's communications and work (pg. 10)

[COVID-19 considerations for group auditors \(ICAEW\)](#)

Subsequent events

The auditor is required to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

The COVID-19 situation continues to evolve quickly which adds to the complexity of evaluating subsequent events and determining what conditions existed at the balance sheet date. Auditors will need to consider extending subsequent events procedures if there are delays in the issuance of financial statements.

Relevant standards and guidance

CAS 560, *Subsequent Events*

[ASPE alert: Subsequent events and other considerations related to COVID-19](#)

- Auditor requirements. (pgs. 4-5)

[Staff audit practice alert: Subsequent events in the current evolving environment - audit considerations for the impact of COVID-19 \(IAASB\)](#)

Going concern (including material uncertainty)

COVID-19-related events and conditions may cause a deterioration in an entity's operating results and financial position that can affect its ability to continue as a going concern. Such conditions may change rapidly and evaluating their impact can be extremely difficult.

The auditor is required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and to conclude whether a material uncertainty exists.

Relevant standards and guidance

CAS 570, *Going Concern*

[Guide: Reporting implications of canadian auditing standards \(4th Edition\)](#)

- Chapter 3 – Emphasis of Matter and Other Matter Paragraphs in the Report, including example reports
- Chapter 11 – Going Concern, including discussion of issues to consider and example reports
- Chapter 13 – Key Audit Matters, including matters to be considered in identifying and reporting KAMs

[Blog: COVID-19 and going concern impacts](#)

[Webinar: COVID-19 and going concern assessments](#)

[Close call going concern assessments \(AASB\)](#)

[Staff audit practice alert: Going concern in the current evolving environment - audit considerations for the impact of COVID-19 \(IAASB\)](#)

[Auditor reporting on going concern \(IAASB\)](#)

Entity's non-compliance with laws and regulations (NOCLAR)

In conducting an audit of financial statements, the auditor takes account of the applicable legal and regulatory framework. The auditor is required to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

The auditor is also required to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. Many jurisdictions are issuing new regulations and directives related to COVID-19. These may include, for example, requirements to restrict or close business operations or refrain from predatory

pricing. While these requirements are intended to protect public health and safety, these new measures could also change (increase) the likelihood of instances of non-compliance – whether intentional or not.

If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the auditor is required to perform further procedures, including evaluating the implications of identified or suspected non-compliance in relation to other aspects of the audit.

Relevant standards and guidance

CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

[Audit & Assurance Alert: Responding to non-compliance with laws and regulations \(CAS 250\)](#)

- What is NOCLAR and How is the Auditor Expected to Address It? (pg. 2)

Auditor reporting

The considerations highlighted throughout this document may have implications for the auditor's report including communication of key audit matters, modifications for scope limitations or emphasis of matter paragraphs related to significant doubt related to an entity's ability to continue as a going concern among others.

Relevant standards and guidance

CAS 700, *Forming an Opinion and Reporting on Financial Statements*

CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

CAS 705, *Modifications to the Opinion in the Independent Auditor's Report*

CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[Guide: Reporting implications of canadian auditing standards \(4th Edition\)](#)

- Examples of when to use an emphasis of matter paragraph (Chapter 3, pg. 78)
- Examples of when to use an other matters paragraph (Chapter 3, pg. 81)
- Detailed discussion of issues to consider and examples of reports (Chapter 11, pgs. 294-311)
- Various matters to consider in reporting a material uncertainty (Chapter 11, pgs. 297-300)
- Various matters to consider in identifying and reporting key audit matters (Chapter 13, pgs. 317-325)

[Audit & Assurance Alert: Key audit matters \(CAS 701\)](#)

- When are key audit matters communicated? (pg. 2)
- How are they determined? (pg. 3)
- How are they communicated and described? (pg. 4)

[Communicating Key Audit Matters in the Auditor's Report \(AASB\)](#)

- Key Audit Matters: Lessons Learned by Firms Implementing KAM Communications on Audits of TSX Listed Entities - Identifying and Communicating KAMs in the Auditor's Report
- Key Audit Matters: Lessons Learned by Firms Implementing KAM Communications on Audits of TSX Listed Entities - Roadmap to Developing a Successful KAM Implementation Process
- Key Audit Matters: Insights for Stakeholders - Frequently Asked Questions

[Auditor reporting on going concern \(IAASB\)](#)

- Summary of going concern reporting scenarios (all auditor's reports); when use of the going concern basis of accounting is inappropriate; when use of the going concern basis of accounting is appropriate but a material uncertainty exists (pg. 2)

[Staff audit practice alert: Auditor reporting in the current evolving environment due to COVID-19 \(IAASB\)](#)

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Comments

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