



CURRENT DEVELOPMENTS

# Canadian Securities & Auditing Matters

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This edition provides a summary of newly effective and forthcoming regulatory and auditing matters in Canada from October 1, 2020 to December 31, 2020.

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# Canadian securities: New guidance

## Continuous Disclosure Review and Guidance on Reporting the Impact of COVID-19

In October 2020, the Canadian Securities Administrators (CSA) published CSA Multi-Lateral Staff Notice 51-361 *Continuous Disclosure Review Program Activities for Fiscal Years Ended March 31, 2020 and 2019*. The SN summarizes the results of disclosure reviews and also provides guidance on reporting the impact of COVID-19.

During fiscal 2020, a total of 583 continuous disclosure (CD) reviews (fiscal 2019 – 514 CD reviews) were conducted with issuer-oriented consisting of 73% of the total (fiscal 2019 - 70%). Key outcomes are summarized below (issuers may have more than one outcome):

Outcome	2020	2019
No action required	41%	29%
Prospective changes	30%	34%
Refiling	17%	23%
Referred to enforcement/cease-traded/default list	8%	10%
Education and awareness	4%	4%

Appendix A summarizes deficiencies into 3 broad categories:

- **Financial Statements:** compliance with recognition, measurement and disclosure requirements in International Financial Reporting Standards including impairment of non-financial assets, recognition and measurement of intangible assets, and disclosure of operating segments.
- **Management's Discussion and Analysis:** compliance with Form 51-102F1 including forward-looking information, liquidity and capital resources, transactions between related parties, discussion of operations, and non-GAAP financial measures.
- **Other Regulatory Requirements:** compliance with other regulatory matters including overly promotional disclosure, insider reporting, early warning reporting, material change reporting, and mineral project disclosure.

An additional section discusses MD&A disclosures particularly related to COVID-19.

Staff indicate that COVID-19 is likely to have had a significant impact on an issuer's operations and financial position. Such disclosure should not only be entity-specific and transparent, providing a detailed explanation and breakdown of the impact of COVID-19, but also of any other factors contributing to period over period variances. Staff state that an issuer should not incorrectly attribute or generally list COVID-19 as the sole reason for any period over period variances or other negative news.

An issuer should discuss the specific impact on their operations that COVID-19 has had, as well as provide detailed disclosures regarding the methodology used to determine the impact. When it is difficult for an issuer to determine with accuracy the quantitative impact of COVID-19 on its financial performance staff suggest that in order to avoid misleading investors, the issuer explain the methodology used in its calculation and should provide information about the judgements and estimations made by management in determining those impacts.

In addition, guidance was provided with respect to non-GAAP measures. Issuers are cautioned about adjustments defined as COVID-19 related. Staff remind that not all COVID-19 effects are non-recurring and there may be a limited basis for management to conclude that a loss or expense is non-recurring, infrequent or unusual. This includes where the impact of COVID-19 crosses over multiple reporting periods. It could be misleading to describe an adjustment as COVID-19 related if management does not explain how the adjusted amount was specifically associated with COVID-19.

# Auditing matters

## Audit Evidence

The AASB provided input to the International Auditing and Assurance Standards Board (IAASB) members from Canada on the IAASB Working Group's project proposal to revise International Standard on Auditing (ISA) 500, *Audit Evidence*.

Key issues discussed included:

- developing a set of factors in relation to, or attributes of, information for auditors to use when considering information to use as audit evidence;
- differentiating the auditor's work effort in relation to information to use as audit evidence; and
- introducing and defining the concept of persuasive audit evidence.

## Audits of Less Complex Entities

The AASB received a presentation from the International Auditing and Assurance Standards Board's (IAASB) Chair, Tom Seidenstein, and its Technical Director, Willie Botha. Their presentation was about the IAASB's work to address issues identified by respondents to the IAASB's Discussion Paper, ["Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs."](#)

In November, the AASB provided input to the IAASB members from Canada on the IAASB Working Group's:

- project proposal to develop a separate standard for audits of less complex entities; and
- specific considerations related to developing a separate standard.

Key issues discussed included:

- the public interest issues and project objectives related to developing a separate standard;
- how to apply a separate standard; and
- the circumstances that the separate standard should (and should not) cover.

## Fraud and Going Concern

The AASB provided input to the IAASB members from Canada on the IAASB Fraud Working Group's information gathering and brainstorming activities related to issues and challenges regarding requirements in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

Key issues discussed included:

- the need for further research to decide whether the rebuttable presumption of fraud over revenue remains appropriate; and
- the need for guidance related to "how" the auditor designs audit procedures to address fraud risks.

In December, the AASB reviewed a draft response to the IAASB's Discussion Paper, ["Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit."](#)

The AASB will review a draft of the complete response letter at a future meeting. The response letter will be submitted by the comment deadline of February 1, 2021.

## Group Audits

The AASB provided input to the IAASB members from Canada on issues related to the IAASB's project to revise ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Key issues discussed included:

- clarifying the scope of the proposed standard as it relates to entities with branches or divisions;
- explaining the group engagement teams' determination of components for planning and performing the group audit;
- enhancing the linkages to

- ISA 315, *Identifying and Assessing the Risks of Material Misstatement*;
- ISA 330, *The Auditor’s Responses to Assessed Risks*; and
- ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*;

- strengthening the guidance on involving component auditors and their role in a group audit; and
- removing the concept of significant components in the proposed standard.

The IAASB is expecting to finalize ISA 600 in 2021.

### Quality Management for Firms

The AASB discussed Canadian specific issues related to the adoption of International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, as Canadian Standard on Quality Management (CSQM) 1.

Key issues discussed included:

- the scope and effective date of CSQM 1; and
- the different forms of implementation guidance that can be developed to address implementation challenges.

The AASB expects to approve final CSQM 1, CSQM 2, *Engagement Quality Reviews*, and CAS 220 (Revised), *Quality Management for an Audit of Financial Statements*, at its January 2021 meeting.

### Audit Standards Issued but Not yet Effective

Standard	Effective for years ending December 31,		
	2021	2022	Beyond
CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i>	✓		
CAS 700, <i>Forming an Opinion and Reporting on Financial Statements</i> ; paragraphs C30 and C40C(c)		✓	
ISA 600, <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i>			✓



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