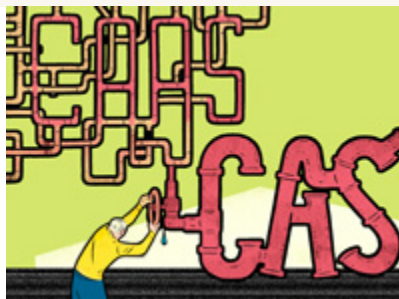


PRINT EDITION August 2009

Changes ahead

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Illustration: Jason Schneider



To ensure a smooth transition to new auditing standards, auditors and their clients will need training and information

As of the end of 2009, generally accepted auditing standards (GAAS) will be called Canadian auditing standards (CAS). In June 2006, the Auditing and Assurance Standards Board decided to adopt the international standards on auditing (ISA)

as Canadian GAAS for financial statement audits. This transition will have a direct impact on all external auditors in Canada.

Even though auditors apply the best auditing practices, CAS will entail significant changes to current audit programs and to auditor behaviour. To ensure a smooth transition, auditors and their clients will require training, information and professional development.

Effective date for the initial adoption of CAS

Audits of financial statements for years ending on or after December 14, 2010, should comply with the new CAS. Early adoption of CAS is not permitted. However, auditors may perform procedures that exceed the requirements of GAAS if they wish.

Auditors therefore need to prepare now for upcoming audit engagements, given that all financial statement audits of entities with a fiscal year beginning January 1, 2010, will have to be performed in accordance with CAS.

Expected impact

Areas of financial statement auditing where current Canadian GAAS are essentially unchanged are:

- compliance with professional ethics and auditor responsibilities;
- legal liability and corporate governance issues;
- understanding business entities and business risk;
- audit planning; and
- internal control evaluation and testing.

Furthermore, some significant standards in the current *CICA Handbook — Assurance* already closely mirror ISA. These standards deal with audit risk, fraud and audit planning. There are no material changes to standards governing other public accounting services and reports, such as review and compilation engagements, and engagements to perform agreed-upon procedures.

Major differences between CAS and current GAAS

The most significant changes that will result from the adoption of ISA as CAS relate to the standard auditors' report and certain audit situations such as group audits, estimates, related-party transactions, confirmations, use of experts and going concern.

Audit documentation – CAS 230

Good news: auditors will have more time to document their files. CAS 230 requires assembly of the final audit file on a timely basis, which would normally be no more than 60 days after the date of the auditor's report. Currently, Section 5145 requires the auditor to assemble a complete and final audit file within 45 days from the report release date or the date of substantial completion.

Communicating deficiencies in internal control – CAS 265

One of the requirements of CAS 265 is the communication of all internal control deficiencies noted during the audit. This requirement has a wider scope than its counterpart requirement under Section 5141, which calls for the auditor to communicate material weaknesses (and not all the deficiencies).

Auditing accounting estimates, including fair value accounting estimates, and related disclosures – CAS 540

This CAS contains more detailed and rigorous requirements than Section 5305: Audit of Accounting Estimates. CAS 540 introduces risk assessment procedures in accordance with the audit risk model, which are not present in existing standards. It requires the auditor to understand the processes, including relevant internal controls, used by management to make accounting estimates. The auditor is also expected to review the outcome of accounting estimates made in the prior period financial statements. In addition, where the auditor has determined that an accounting estimate gives rise to a significant risk, CAS 540 guides the auditor to consider how management has assessed the effect of estimation uncertainty. For instance, the auditor must evaluate whether the significant assumptions made by management provide a reasonable basis for the accounting estimate. If management has considered alternative assumptions or outcomes, why have they rejected them?

Related parties – CAS 550

While the current section adopts a risk-based approach for audits of related-party transactions, the new standard is procedures-based. CAS 550 requires the auditor to perform specific procedures to verify the completeness of related-party information provided by those charged with governance. Although the current section suggests similar procedures, they aren't required.

The requirements of the new standard relate to understanding the controls management has established for related-party transactions, analyzing accounting records for transactions with related parties, considering the risk of fraud in related-party transactions, getting sufficient documentary evidence to corroborate management's contentions, and documenting the audit.

Going concern – CAS 570

There is currently no Canadian standard equivalent to CAS 570. It addresses the auditors' responsibility to evaluate the appropriateness of management's use of the going concern assumption in preparing financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. CAS 570 identifies the procedures to be followed, for example

when assessing whether an entity can continue as a going concern in the 12 months following the date of the financial statement and also when there is doubt regarding the entity's ability to continue as a going concern.

When there is material uncertainty regarding the entity's ability to continue as a going concern, the auditor should determine whether the financial statement clearly indicates and describes the significant doubt about the entity's ability to continue as a going concern, management's plans to address it, as well as the potential consequences. In addition, a paragraph should be added to the auditor's report that highlights the existence of a material going concern uncertainty and draws attention to the related note to the financial statements.

Audits of group financial statements – CAS 600

There is no equivalent standard in GAAS. CAS 600 introduces many new concepts, and its application will require a significantly increased work effort from that required by current Section 6930: Reliance on Another Auditor. Some examples of the additional work under CAS 600 are that the group engagement team is required to establish an overall group audit strategy and develop a group audit plan that will be reviewed by the group engagement partner. This same team is expected to obtain an understanding of the group, its components and their environments.

This CAS provides more explicit and extensive requirements on the consolidation process, subsequent events, and communications with component auditors, management and those charged with governance of the group. Therefore, in cases where the auditor of the consolidated entity isn't the auditor of all major components, this new standard will doubtless have a significant impact.

Using the work of an auditor's expert – CAS 620

CAS 620 deals only with the use of the work of the auditor's expert, unlike the current standard that addresses the work of an expert, regardless of who has done the hiring. CAS 620 provides more explicit requirements, for example on obtaining an understanding of the expert's field of expertise and on providing direction and communication to the expert. The new standard requires the agreement with the auditor's expert to be in writing. In addition, changes will be made to CAS 500: Considering the Relevance and Reliability of Audit Evidence, in relation to the auditor's use of the work performed by management's experts.

Standards governing the independent auditor's report on the financial statements – CAS 700, CAS 705 and CAS 710

Significant changes will be made to the auditor's report:

- the structure and wording of the standard report;
- the requirement that the auditor comply with ethical requirements regarding the new report;
- the requirement that the auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. For this purpose, the date of approval of the financial statements is defined as the date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and that they have taken responsibility for them. In practical terms, this means the date of the

auditor's report will be no earlier than the date of approval of the financial statements in final form by the directors. This represents a significant change from current standards, under which the date of substantial completion of the auditor's examination is used as the date of the auditor's report. This change will have an impact on the representation letter, the independence letter, legal confirmations and audits of subsequent events. The further the reporting date from the date of substantial completion, the greater the need for additional audit work. Consequently, audit fees will increase.

Conclusion

The mentioned changes are not a complete list. They do not take into account certain differences that could be more important for some and less for others, depending on the situation of each auditor. The upcoming changes represent another major challenge for today's auditors and for all preparers of financial statements that need to be audited. Auditors and preparers should familiarize themselves with CAS as soon as possible to understand the potential impact of this transition on the audit process.

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