
ASSURANCE IMPLICATIONS of the Changeover to IFRSs

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CICA

This CICA publication has been developed by the Task Force on Assurance Implications of Changeover to IFRSs. The material in this Guide represents the views of the Task Force.

Auditors are expected to use professional judgment in determining whether the material in this Guide is both appropriate and relevant to the circumstances of each assurance engagement. This Guide has not been issued under the authority of the Auditing and Assurance Standards Board (AASB).

Introduction

Changeover to IFRSs

For many entities, International Financial Reporting Standards (IFRSs) will replace existing Canadian generally accepted accounting principles (existing Canadian GAAP¹) effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 (changeover date). Some entities may choose to adopt IFRSs before the effective date. When the entity changes over from existing Canadian GAAP to IFRSs, this will have significant implications for the auditors of that entity.

Purpose of this Guide

With the complexities related to the changeover to IFRSs and the associated timelines, the adoption of IFRSs brings new challenges for management and auditors. This Guide provides guidance to the entity's auditors dealing with significant auditing and assurance matters arising from their clients' changeover from existing Canadian GAAP to IFRSs. This Guide is not intended for public accountants who are not the auditors of the entity adopting IFRSs.

Readers are also referred to the CICA Guide "[Audit Reporting Implications of New Auditing and Accounting Standards](#)" that provides guidance on the form and content of audit reports.

Format of this Guide

This Guide will be updated periodically as further changeover issues come to light. The date of each version is indicated at the top of the introduction page. The nature and extent of material added since the last issue is highlighted in each new issue.

Each issue is presented in a concise, easy to read Question and Answer format. The Guide is meant to provide insight and stimulate discussion on important topics but is not intended to address all potential issues. The comments that accompany the questions are designed to help auditors understand and apply requirements and supporting guidance issued by the AASB.

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¹ Existing Canadian GAAP refers to GAAP before the changeover to IFRSs. When IFRSs come into effect, they will constitute Canadian GAAP for publicly accountable enterprises, as defined by the Accounting Standards Board (AcSB) and for government organizations as determined by the Public Sector Accounting Board (PSAB).

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BASIC SCENARIO

Unless otherwise stated, the questions and answers are premised on the following scenario:

The entity

The entity has a December 31 year end. The entity is adopting IFRSs for the first time in 2011 and, accordingly, will be applying IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Up to 2010, the entity's financial statements will be prepared in accordance with existing Canadian GAAP. The entity's date of transition to IFRSs¹ is January 1, 2010 and its changeover date² is January 1, 2011.

The auditor

The auditor has an ongoing relationship with the entity. For example, the auditor conducted or will conduct an audit of the financial statements through to December 31, 2011.

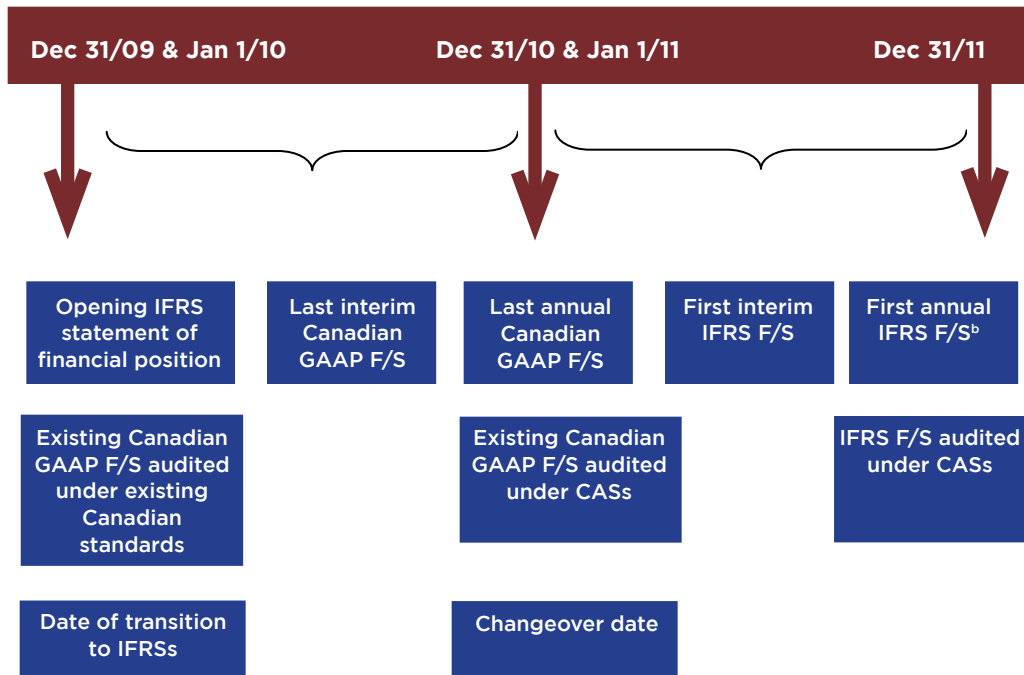
The audit environment

The AASB is adopting International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). After the adoption of ISAs in the CICA Handbook – Assurance, standards dealing with the audit of financial statements will be called Canadian Auditing Standards (CASs) and will constitute Canadian generally accepted auditing standards (GAAS). The CASs will be effective for audits of financial statements for periods ending on or after December 14, 2010. Unless otherwise stated, this issue of the Guide deals with the auditor's responsibilities prior to the effective date of the CASs.

¹ Date of transition to IFRSs is defined in IFRS 1 as "the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements."

² Changeover date is the date IFRSs will replace existing Canadian GAAP. IFRSs will be required for Canadian publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Timeline^a



^a In this chart, F/S refers to "financial statements."

^b The first IFRS F/S are defined in IFRS 1 as the first annual financial statements in which the entity adopts IFRSs by an explicit and unreserved statement of compliance with IFRSs.

1. SELECTION OF IFRS ACCOUNTING POLICIES

1 What are the auditor's considerations when asked to provide advice on the selection of IFRS accounting policies?³

- 1 The provision by the auditor of general advice to the management of the entity in the selection of its IFRS accounting policies can contribute to improved financial reporting. The provision of such advice normally does not threaten the auditor's independence. For example, it would be appropriate for the auditor to provide information on standards of particular interest to the entity regarding:
 - (a) differences between existing Canadian GAAP and IFRSs;
 - (b) alternative IFRS accounting policies available; or
 - (c) high-level analysis of the alternative IFRS accounting policies.

- 2 Nevertheless, the auditor needs to ensure that he or she does not agree to perform any type of service related to the changeover to IFRSs that would impair his or her independence. Rules of professional conduct/code of ethics for public accountants set out various prohibited services as well as those services that threaten independence and require safeguards. A basic principle to follow in deciding whether to undertake any service for the entity in addition to the financial statement audit is that the work undertaken by the auditor should not create a self-review threat to independence. The auditor cannot be in a position where he or she is acting in the role of management or is auditing the results of his or her own decisions and work. For example, an auditor cannot make decisions regarding what IFRS accounting policies management should adopt. However, as indicated above, general advice to management would be permitted.

³ IAS 8 *Accounting Policies, Changes in Estimates and Errors*, paragraph 5, states: "Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements."

2. APPLICATION OF A SPECIFIC IFRS ACCOUNTING POLICY SELECTED BY MANAGEMENT

2A *What are the auditor's considerations when deciding whether to accept an engagement to provide comfort on the application of a specific IFRS accounting policy tentatively selected by management?*

- 1 Management may ask the auditor to provide comfort on whether the application of a specific IFRS accounting policy that it has tentatively selected is consistent with the requirements of IFRSs. Consistency with the requirements of IFRSs means that management has correctly interpreted the standard and appropriately applied the specific accounting policy to specific facts and circumstances in accordance with IFRSs. Such requests may be common because of the auditor's knowledge of IFRSs and knowledge of and experience with the entity.
- 2 An engagement where the auditor is asked to provide comfort to management on whether the application of a specific IFRS accounting policy is consistent with the requirements of IFRSs is not an assurance engagement because it does not involve an accountability relationship between management and a user. (Note: In a case where an accountability relationship exists, for example, if the audit committee requests the auditor to provide comfort on whether the application of a specific IFRS accounting policy selected by management is consistent with the requirements of IFRSs, the engagement may be an assurance engagement. If the auditor intends to provide assurance, he or she would follow the requirements and guidance set out in Section 5025, *Standards for Assurance Engagements*. Question 4 provides a discussion of some of the issues related to providing assurance in the context of an opening IFRS statement of financial position.)
- 3 Management is responsible for the interpretation of the accounting standards and the selection and application of IFRS accounting policies. Accordingly, before accepting an engagement to provide comfort on the application of a specific IFRS accounting policy, the auditor assesses whether he or she would be, or would appear to be, selecting or applying the entity's IFRS accounting policies when he or she is providing comfort to management. Some of the factors that an auditor may consider in making such an assessment include:
 - (a) the level of management's expertise with IFRSs;
 - (b) whether management has made and documented relevant decisions and choices it needs to make in selecting IFRS accounting policies;
 - (c) whether management's process for reaching its tentative decisions on IFRS accounting policies appear to be robust and adequate; and
 - (d) whether management will take full responsibility for the accounting and financial reporting policies and judgments, including formal acknowledgment of that responsibility.

- 4 In addition, before accepting an engagement to provide comfort on whether the application of a specific IFRS accounting policy is consistent with the requirements of IFRSs, the auditor would consider whether the application of the single accounting policy in isolation of others will present complex issues as some accounting policies may be incompatible with others.
- 5 It is in the interest of both the entity and the auditor that the terms of the engagement be finalized, preferably in writing and before commencing the engagement, to help avoid misunderstandings with respect to the engagement.

2B The auditor has accepted an engagement to provide comfort to management on whether the application of a specific IFRS accounting policy selected by management is consistent with the requirements of IFRSs. What are the auditor's considerations when communicating the results of the engagement to management?

- 6 When the auditor accepts an engagement to provide comfort on whether the application of a specific IFRS accounting policy is consistent with the requirements of IFRSs, the auditor is providing his or her views on the subject matter. As indicated in Question 2A, this engagement is not an assurance engagement.
- 7 The means used to communicate the auditor's views may vary in form and content. To avoid misunderstanding, the auditor would consider communicating, in either oral or written form, the nature and scope of the engagement and the results of the work performed by the auditor. For example, the auditor would include the following in any communication:
 - (a) A statement that the entity's management is responsible for the selection, interpretation and application of accounting policies in the preparation and presentation of financial statements in accordance with IFRSs.
 - (b) A description of:
 - (i) the entity's selected IFRS accounting policy;
 - (ii) the specific relevant requirements of IFRSs (and the version, where applicable);
 - (iii) the auditor's understanding of the facts and circumstances surrounding the entity's selection of the accounting policy; and
 - (iv) the assumptions made by management in interpreting those facts and circumstances (where necessary).
 - (c) The auditor's views as to whether the entity's application of its selected accounting policy is consistent with the requirements of IFRSs.
 - (d) The date up to which the selected IFRS accounting policy has been considered by the auditor.
 - (e) A statement that any difference in facts and circumstances or assumptions presented may change the analysis and views expressed in the communication.

- (f) A statement that the entity's selected accounting policies may need to be subsequently adjusted to reflect the effects of:
 - (i) changes in financial reporting requirements arising from new or revised standards or interpretations issued by the International Accounting Standards Board (IASB) subsequent to the date of the auditor's communication;
or
 - (ii) changes to the entity's operation.
 - (g) A statement that the auditor's views are given in the context of a specific IFRS accounting policy and that since the policy has not yet been applied to any financial statements, the auditor's views will be reassessed when the selected IFRS accounting policy is considered in the context of an audit of the IFRS financial statements.
 - (h) A statement that the engagement is not an assurance engagement and, therefore, the auditor is not expressing an audit opinion or other conclusion conveying assurance.
 - (i) To reduce the risk of unintended users placing unwarranted reliance on the auditor's communication, a statement indicating that the communication is for the purpose and use of management and that it should not be used by other parties for any other purpose without prior consent. In the case of a written communication, an additional statement indicating that the auditor's communication should not be distributed to other parties without prior written consent.
 - (j) If management intends to provide the audit committee and/or the board of directors with a copy of the auditor's written communication, a statement that the audit committee and/or the board of directors have responsibility for carrying out other procedures they deem appropriate to obtain whatever information they believe is necessary regarding the entity's selection of accounting policies, its interpretations of IFRSs and its IFRS changeover process.
- 8 Since the auditor has been engaged to express his or her views on the subject matter but not provide any assurance, it is important that any auditor's communication in the context of this type of engagement not imply that an audit or review has been performed. To avoid confusion, the auditor would not use the terms such as "audit," "review," "assurance," "verification," "evidence," or "opinion," in describing the objective of the engagement, the work performed or the results of the auditor's work. As noted in paragraph 7(h), it is also useful to communicate that the auditor is not providing an audit opinion or other conclusion conveying assurance.
- 9 In addition, the auditor has not obtained audit evidence regarding the application of the specific IFRS accounting policy in the context of the entity's IFRS financial statements taken as a whole. Therefore, it would not be appropriate for the auditor to express an opinion on the application of the entity's accounting policy in that context.

10 If the auditor is issuing a written report, the following is an example of what the form and content of such a report might be.

REPORT ON THE APPLICATION OF THE ACCOUNTING POLICY

To Management of ABC Company

I have been engaged to provide my view on whether the application of the accounting policy selected by management, as described in Appendix A,⁴ is consistent with the requirements of International Financial Reporting Standards (IFRSs) as at [Date], described in Appendix A.

ABC Company's management is responsible for the interpretation of the accounting standards and the selection and application of accounting policies in the preparation and presentation of financial statements in accordance with IFRSs. Management has selected the accounting policy described in Appendix A and has determined that the application of the accounting policy is consistent with the requirements of the IFRSs. Appendix A describes the facts and circumstances surrounding management's selection of the accounting policy and any assumptions made by management in interpreting those facts and circumstances.

Based on the information described in Appendix A, my view is that the application of the accounting policy selected by management is consistent with the requirements of the IFRSs. Any difference in facts and circumstances or assumptions presented in Appendix A may change the view provided.

This engagement is not an assurance engagement. No audit or review has been performed on the facts, circumstances, assumptions or underlying transactions or balances and, therefore, I am not expressing an audit opinion or other conclusion conveying assurance.

My view will be reassessed when the accounting policy selected by management has been applied to financial statements prepared in accordance with IFRSs ("IFRS Financial Statements"). My view may change when the accounting policy selected by management is considered in the context of the audit of those IFRS Financial Statements or if there are changes in facts, circumstances or assumptions made by management when the IFRS Financial Statements are prepared.

Furthermore, the accounting policy selected by management, and the application thereof, may need to be subsequently adjusted to reflect the effects of: (i) changes in financial reporting requirements

⁴ Appendix A is generally a position paper written by management. Alternatively, the report could include:

- (a) the entity's selected accounting policies;
- (b) management's rationale and related support for its belief that the selected accounting policies are consistent with the requirements of IFRSs;
- (c) the specific relevant IFRS requirements (and the version, when relevant);
- (d) the facts and circumstances surrounding the entity's selection of the IFRS accounting policy; and
- (e) any assumptions made in interpreting those facts and circumstances.

arising from new or revised standards issued by the International Accounting Standards Board (IASB) subsequent to [Date, as described in Appendix A], (ii) changes to the entity's operation, or (iii) changes in the accounting policy currently selected by management.

This report has been prepared solely for the purpose and use of management and it should not be used for any other purpose. This report should not be distributed to other parties, in whole or in part, without our prior written consent. In situations when management provides the audit committee and/or the board of directors with a copy of this report, the audit committee and the board of directors are still required to carry out other procedures they deem appropriate to obtain whatever information they believe is necessary to discharge any responsibilities regarding the Entity's selection of accounting policies, its interpretations of IFRSs and its IFRS changeover process.

Chartered Accountants

_____ [City], Canada

_____ [Report Date]

3. INTERNAL OPENING IFRS STATEMENT OF FINANCIAL POSITION

3A *What is an internal opening IFRS statement of financial position?*

- 1 The internal opening IFRS statement of financial position is a special purpose financial statement prepared using selected accounting policies and is not a general purpose financial statement intended to meet the common information needs of external users.
- 2 The internal opening IFRS statement of financial position may be significantly different from the external opening IFRS statement of financial position for the following reasons:
 - (a) The entity has a number of choices when it adopts IFRSs for the first time. Since the internal opening IFRS statement of financial position is a special purpose financial statement, the entity may not have made final determinations regarding the exemptions it will elect to use in applying IFRS 1 *First-time Adoption of International Financial Reporting Standards* or the accounting policy selections available in various IFRSs, or if it will early adopt any IFRSs that are not effective until after 2011. If management decides to change one or more of the preliminary determinations used to prepare the internal opening IFRS statement of financial position, then the external opening IFRS statement of financial position could differ significantly.
 - (b) In the early stages of the entity's changeover to IFRSs, it may be unclear whether a new IFRS will be in effect when the entity finalizes its accounting policies for its external opening IFRS statement of financial position in 2011. For example, at the time of writing of this Guide, the IASB's projected timetable identifies an estimated publication of several exposure drafts for publication in 2010, with final standards to be published in 2011. Since these projects are works in progress, the entity may choose accounting policies for a particular topic in an internal opening IFRS statement of financial position that are premised on information available in an exposure draft, with the expectation that there will be no significant changes once the standard is finalized in 2011. In these circumstances, the external opening IFRS statement of financial position could differ significantly from the internal opening IFRS statement of financial position if the expectations do not agree with the final standard.

3B Management has prepared an internal opening IFRS statement of financial position and the audit committee requested the auditor to audit it solely for internal purposes. What matters should the auditor consider in accepting, performing, and reporting on the engagement?

- 3 The following factors may be relevant in deciding whether to accept an engagement to audit the internal opening IFRS statement of financial position. These factors may influence whether the auditor will be able to obtain sufficient appropriate evidence regarding the account balances and disclosures in the internal opening IFRS statement of financial position:
 - (a) whether the auditor has completed audit work on the financial statements for the period ending immediately prior to the internal opening IFRS statement of financial position (i.e., the December 31, 2009 financial statements) prepared in accordance with existing Canadian GAAP;
 - (b) whether management's preparations for the changeover to IFRSs is in a sufficiently advanced stage; and
 - (c) whether the auditor has the necessary training and proficiency in IFRSs to perform this engagement.

- 4 It is in the interest of both the entity and the auditor that the terms of the engagement be finalized on a timely basis, preferably before commencing the engagement, to avoid misunderstandings with respect to the engagement. Section 5110, *Terms of the Engagement*, provides the requirements and guidance on establishing an understanding of, and agreement on, the terms of the engagement for the audit of financial statements. In the context of the audit of an internal opening IFRS statement of financial position, the terms of the engagement may include, for example:
 - (a) a description of the entity's selected accounting policies used in the preparation of the internal opening IFRS statement of financial position;
 - (b) acknowledgment that the entity's internal opening IFRS statement of financial position may be significantly different from the external opening IFRS statement of financial position sheet due to changes in financial reporting requirements arising from new or revised standards or interpretations issued by the IASB subsequent to the date of the auditor's communication or changes in the use of one or more exemptions permitted under IFRS 1; and
 - (c) acknowledgment that the audit is for the purpose and use of audit committee and that it should not be used by other parties for any other purpose or provided to other parties.

- 5 The audit of the internal opening IFRS statement of financial position would be conducted in accordance with GAAS. GAAS does not contain any specific requirements regarding reporting on special purpose financial statements of this type. The example report in this Guide is developed by referring to Section 5025, *Standards for Assurance Engagements*, and relevant aspects of various reporting standards in the CICA Handbook – Assurance.

- 6 Section 5600, *Auditor's Report on Financial Statements Prepared Using a Basis of Accounting Other Than Generally Accepted Accounting Principles*, is not applicable in the audit of the internal opening IFRS statement of financial position since its scope is limited to situations when financial statements are prepared in accordance with:
 - (a) regulatory or legislative requirements to meet the specific needs of a regulator or a legislator; or
 - (b) written contractual requirements such as may be set out in trust indentures or buy/sell agreements.

- 7 Section 5805, *Special Reports – Audit Reports on Financial Information Other Than Financial Statements*, is also not applicable in the audit of the internal opening IFRS statement of financial position since its scope is limited to financial information other than financial statements. The internal opening IFRS statement of financial position is a financial statement.

- 8 In the circumstance of an audit of an internal opening IFRS statement of financial position, Section 5025 requires the auditor to identify or develop criteria that are suitable for evaluating the subject matter (i.e., the internal opening IFRS statement of financial position) and to assess the suitability of the criteria because they lack authoritative support. The basis of accounting may, for example, be a combination of IFRSs effective at a specific date and changes proposed in exposure drafts issued as of that date.

- 9 Paragraph 5025.62 sets out the minimum requirements relating to matters to be included in the auditor's report. In addition to these minimum requirements, the auditor may wish to expand the auditor's report on the internal opening IFRS statement of financial position by:
 - (a) making it clear from the title of the report that the auditor's report relates to special purpose financial statements;
 - (b) indicating the purpose for which it has been prepared by management;
 - (c) indicating the scope of the assurance engagement;
 - (d) including an explanatory paragraph stating that the accounting policies applied in preparing the internal opening IFRS statement of financial position may be different from those to be used in preparation of the external opening IFRS statement of financial position;
 - (e) including an explanatory paragraph stating that, under IFRSs, fair presentation of the entity's financial position, financial performance and cash flows can only be achieved when a set of financial statements comprising a statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with comparative financial information and notes, including a summary of significant financial accounting policies and other explanatory information, is presented; and
 - (f) restricting use and distribution in the report.

10 Below is an example of an unqualified auditor's report that may be issued in relation to the internal opening IFRS statement of financial position.

**AUDITOR'S REPORT ON SPECIAL PURPOSE INTERNAL
STATEMENT OF FINANCIAL POSITION**

To the Audit Committee of ABC Company

We have audited the internal statement of financial position of ABC Company as at January 1, 2010 and a summary of significant accounting policies and other explanatory information (together "the financial statement"). The financial statement has been prepared for the purpose of internal reporting to the audit committee using the basis of accounting described in Note X to the financial statement. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of ABC Company as at January 1, 2010 in accordance with the basis of accounting described in Note X to the financial statement.

Without modifying our opinion, we draw attention to the fact that Note X to the financial statement explains why there is a possibility that the financial statement may require adjustment before constituting the external statement of financial position as at January 1, 2010 prepared in accordance with International Financial Reporting Standards (IFRSs). Moreover, we draw attention to the fact that, under IFRSs, fair presentation of the Company's financial position, financial performance and cash flows can only be achieved when a set of IFRS financial statements comprising a statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with comparative financial information and notes, including a summary of significant financial accounting policies and other explanatory information, is presented.

The financial statement is prepared to provide information to the audit committee of ABC Company in connection with its conversion of the basis of the preparation of the financial statements to IFRSs. Our report should not be used for any other purpose or provided to other parties.

City _____

Date _____ (signed) _____
CHARTERED ACCOUNTANT

4. REVIEW OF INTERIM FINANCIAL STATEMENTS

4A *A reporting issuer is required by securities legislation to file interim financial statements. The issuer's audit committee has requested the auditor to perform a review of the reporting issuer's first 2011 interim financial statements to assist the audit committee in discharging its responsibilities with respect to the interim financial statements. What matters should the auditor consider in accepting, performing and reporting on the engagement?*

Background

- 1 Canadian securities legislation requires a reporting issuer to file interim financial statements prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises. Canadian GAAP applicable to publicly accountable enterprises is IFRSs on or after January 1, 2011.
- 2 In the year a reporting issuer adopts IFRSs, its March 31, 2011 interim financial statements ("first 2011 interim financial statements") would include:
 - (a) the statement of financial position as at March 31, 2011;
 - (b) the statement of financial position as at December 31, 2010;
 - (c) the statement of financial position as at January 1, 2010 ("opening IFRS statement of financial position")⁵;
 - (d) the statements of comprehensive income for the three-month periods ended March 31, 2011 and March 31, 2010;
 - (e) the statements of changes in equity for the three-month periods ended March 31, 2011 and March 31, 2010; and
 - (f) the statements of cash flows for the three-month periods ended March 31, 2011 and March 31, 2010.
- 3 A reporting issuer may engage its auditor to perform an interim review of the first 2011 interim financial statements. Performance of a review of interim financial statements before their issuance permits timely consideration of significant accounting matters affecting the interim financial statements, and provides an opportunity for early resolution of issues affecting the annual financial statements. In particular, an interim review provides timely consideration of matters related to the changeover to IFRSs. It is desirable for the reporting issuer to engage its auditor to perform an interim review before the issuance of the interim statements. However, the interim review may need to be performed subsequently (for example, in connection with the preparation of a prospectus or other securities offering document when the auditor has not previously reviewed the interim financial statements).

⁵ See paragraph 22 for details regarding inclusion of the opening IFRS statement of financial position in the first 2011 interim financial statements.

Interim review

- 4 Section 7050, *Auditor Review of Interim Financial Statements*, applies to the review of an entity's interim financial statements to assist the audit committee in discharging its responsibilities with respect to the interim financial statements that are to be issued under the provisions of securities legislation. Paragraph 7050.23 states that the objective of a review of interim financial statements is to provide the entity's auditor with a basis for reporting on whether he or she is aware of any material modification that needs to be made for such statements to be in accordance with Canadian GAAP. The auditor's assessment is based on applying the auditor's knowledge of accounting and financial reporting practices to significant accounting matters of which the auditor has become aware through inquiry, analytical procedures and discussions.

Acceptance

- 5 A reporting issuer may engage its auditor to perform a review of the first 2011 interim financial statements. A reporting issuer's changeover to IFRSs may have a significant impact on the entity and its environment, including internal control. In particular, the accounting policies and the systems and processes the reporting issuer uses to prepare its first 2011 interim financial statements may be significantly different from those used to prepare current interim financial statements. Consequently, the auditor will have to consider the impact of the reporting issuer's changeover to IFRSs in order to ensure that he or she has an appropriate basis on which to perform an interim review.
- 6 Paragraph 7050.26 requires that an interim review be performed and the report prepared by a person or persons having adequate technical training and proficiency in performing audits and in performing interim reviews in accordance with Section 7050, with due care and with an objective state of mind. The auditor would have to consider whether he or she has the necessary training and proficiency in IFRSs to comply with this requirement before accepting an engagement to perform an interim review of the first 2011 interim financial statements.
- 7 If the auditor accepts the engagement, it is important that there be a clear understanding and agreement between the auditor and the reporting issuer as to the nature and terms of the interim review engagement. It is desirable that such an agreement be put in writing to avoid misunderstandings. A written agreement reduces the risk that either the auditor or the reporting issuer may misinterpret the needs or expectations of the other party. If the auditor believes that there is no clear understanding with the reporting issuer, he or she would decline to undertake the interim review engagement.

Obtaining an understanding of the entity and its environment

- 8 Section 7050 presumes that the auditor, through performing the audit of the annual financial statements, possesses an understanding of the entity and its environment, including internal control as it relates to the preparation of both the annual and interim financial statements to:
- (a) identify the types of potential material misstatements in the interim financial statements and consider the likelihood of their occurrence; and
 - (b) select the inquiries and analytical procedures that will provide the auditor with a basis for communicating whether he or she is aware of any material modification that needs to be made for such statements to be in accordance with the financial reporting framework disclosed in the interim financial statements.⁶
- 9 In the context of the review of the first 2011 interim financial statements, the auditor would need to update his or her understanding of the entity and its environment, including internal control, to take into account the reporting issuer's changeover to IFRSs. While CASs apply to audits of financial statements, an auditor, in performing a review of the interim financial statements, may nonetheless find paragraph 11 of CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, useful to assist him or her in updating his or her understanding of the entity and its environment. Appendix A to this Q&A sets out the main categories outlined in paragraph 11 of CAS 315 and examples of how this understanding may be updated due to the reporting issuer's changeover to IFRSs.
- 10 An auditor who has audited the reporting issuer's financial statements for one or more prior periods would have acquired a sufficient understanding of internal control as it relates to the preparation of the existing Canadian GAAP financial statements. However, internal controls over the preparation of the first 2011 interim financial statements may differ significantly from the current internal control process. For example, new internal control procedures often need to be established to ensure the completeness and accuracy of IFRS adjustments and to otherwise help ensure the completeness and accuracy of information not previously required under existing Canadian GAAP. As a result, the auditor would need to obtain an understanding of significant changes to the internal controls resulting from the reporting issuer's changeover to IFRSs. While CASs apply to audits of financial statements, an auditor, in performing an interim review of the interim financial statements, may nonetheless find paragraphs 12-24 of CAS 315 useful to assist him or her in updating his or her understanding of the entity's internal controls. Appendix B to this Q&A sets out the main categories outlined in these paragraphs and examples of

⁶ Please refer to footnote 7 for a discussion of the financial reporting framework.

how this understanding may be updated due to the reporting issuer's changeover to IFRSs.

- 11 If the reporting issuer's internal controls over the changeover to IFRSs appear to contain deficiencies so significant that it is impracticable for the auditor to apply his or her knowledge of IFRSs to the first 2011 interim financial statements effectively, the auditor would consider whether this precludes the completion of the interim review.

Nature and extent of procedures

- 12 Paragraphs 7050.34-.37 provide guidance on the nature of procedures an auditor would normally perform in an interim review.
- 13 The nature and extent of the procedures in an interim review of the first 2011 interim financial statements is likely to differ from previous interim reviews. For example, interim review procedures would extend to:
 - (a) the opening IFRS statement of financial position and the comparative financial information as this information was previously prepared under a different financial reporting framework; and
 - (b) the reconciliation of the financial information prepared in accordance with two different financial reporting frameworks.
- 14 Performing analytical procedures related to the interim financial statements helps identify and provide a basis for inquiry about relationships and individual items that appear to be unusual or that may reflect a material misstatement of the interim financial statements. In the context of an interim review of the first 2011 interim financial statements, the auditor will need to use the information obtained in updating his or her understanding of the entity and its environment, including internal controls, to form expectations with which to compare to actual data. The auditor may also need to perform analytical procedures that are different from those that he or she would normally perform. For example, useful analytical procedures may include the following:
 - (a) a comparison of the January 1, 2010, March 31, 2010 and December 31, 2010 IFRS figures with the corresponding Canadian GAAP figures, together with IFRS adjustments; and
 - (b) a comparison of the March 31, 2011 IFRS figures with the appropriate comparative IFRS figures.
- 14A If the reporting issuer does not wish to file a notice indicating that the interim financial statements have not been reviewed, Canadian securities regulations require that the review of the interim financial statements cover all periods presented in the statements. Accordingly, if the auditor has not previously reviewed the 2010 quarterly interim financial statements prepared in accordance with existing Canadian GAAP, he or she should consider the impact this has on the review of the

reporting issuer's first 2011 interim financial statements, which includes all the periods indicated in paragraph 2.

- 15 An interim review does not normally contemplate the auditor performing certain other procedures that would normally be carried out during an audit. Accordingly, in performing an interim review of interim financial statements, the auditor normally would not seek out corroborative evidence of management's responses to the auditor's inquiries resulting from the analytical procedures performed. However, in the context of the review of the first 2011 interim financial statements, the auditor may need to perform additional procedures when he or she becomes aware of information that leads him or her to question whether the interim financial statements are prepared in accordance with the financial reporting framework disclosed in the interim financial statements.
- 16 If deficiencies in internal controls over the reporting issuer's changeover to IFRSs lead the auditor to question whether any material modification needs to be made for the interim financial statements to be in accordance with the financial reporting framework disclosed in the interim financial statements, the auditor is required to perform additional procedures sufficient to enable the auditor to report on the interim financial statements.
- 17 Paragraph 7050.40 contemplates that interim review procedures may be modified to take into account consideration of the results of auditing procedures applied either in performing an audit for an earlier year, or as part of the audit of the current year. Due to the potential complexity of the changeover to IFRSs, it is desirable for the auditor to carry out audit procedures relating to the changeover to IFRSs at an early date, such as during 2010 or early 2011.
- 18 Such additional interim review or audit procedures may include:
 - (a) testing of accounting records supporting IFRS adjustments through inspection, observation or confirmation;
 - (b) testing of internal controls to evaluate their effectiveness, particularly of information systems and control activities relevant to IFRSs;
 - (c) obtaining corroborative evidence of management's responses to the auditor's inquiries related to IFRS adjustments; and
 - (d) considering whether previously undiscovered misstatements from prior periods have been appropriately treated.

Written management representations

- 19 Paragraph 7050.42 requires the auditor to obtain certain written representations from management. For the first interim IFRS financial statements, the auditor may consider obtaining additional representations on matters related to new IFRS policies or adjustments. For example, the auditor may obtain representation regarding the completeness and accuracy of the IFRS adjustments.

Interim review report

20 Below is an example of an interim review report on the first 2011 interim financial statements.

[Letterhead of reporting issuer's auditor]

[Date]

[Addressee — normally the audit committee]

Dear Sirs / Madames:

In accordance with our engagement letter dated _____, I have reviewed the [condensed] interim financial statements of [name of Company], consisting of:

- the [condensed] statement of financial position as at March 31, 2011;
- the [condensed] statement of financial position as at December 31, 2010;
- the [condensed] statement of financial position as at January 1, 2010;
- the [condensed] income statements for the three month periods ended March 31, 2011 and March 31, 2010;
- the [condensed] statements of other comprehensive income for the three-month periods ended March 31, 2011 and March 31, 2010;
- the [condensed] statements of changes in equity for the three-month periods ended March 31, 2011 and March 31, 2010; and
- the [condensed] statements of cash flows for the three-month periods ended March 31, 2011 and March 31, 2010.

These [condensed] interim financial statements are the responsibility of the [name of Company's] management.

I performed my reviews in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor (an "interim review"). Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, I do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on my reviews, I am not aware of any material modification that needs to be made for these [condensed] interim financial statements to be in accordance with [financial reporting framework disclosed in the interim financial statements].⁷

This report is solely for the use of the Audit Committee of [name of Company] to assist it in discharging its regulatory obligation to review these interim financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance

⁷ Canadian securities legislation requires interim financial statements to disclose an unreserved statement of compliance with IAS 34 *Interim Financial Reporting*. Although disclosure of compliance with IAS 34 is required, management is permitted to make additional references in its financial reporting framework. The reference to the financial reporting framework contained in the interim review report is consistent with that referred to in the notes to the interim financial statements prepared by the entity's management.

or decisions made based on it, are the responsibility of such third party. I accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

Yours very truly,

.....
 CHARTERED ACCOUNTANT

Other matters

21 Paragraph 7050.60 requires that each page of the interim financial statements be clearly marked as unaudited. As a result, the statements of financial position as at January 1, 2010 and December 31, 2010, presented as comparative information in the interim financial statements, cannot be identified as being “audited” or otherwise implied⁸ as having been audited even if the auditor has previously audited the internal opening IFRS statement of financial position for internal purposes as contemplated in Q&A 3, or performed early some audit work on elements of the opening IFRS statement of financial position as contemplated in Q&A 6. Accordingly, the current period and comparative period internal financial statements, including the prior year-end statement of financial position, are marked as unaudited.

22 The first interim Management Discussion and Analysis (MD&A) may contain more extensive information related to the entity’s changeover to IFRSs as compared to the prior periods. Auditors performing an interim review would also read the information contained in the interim MD&A that accompanies the interim financial statements filed with securities regulatory authorities and consider whether such information is materially inconsistent with the interim financial statements.

23 Canadian securities legislation requires a reporting issuer to include an opening IFRS statement of financial position in its first interim financial report⁹ that discloses compliance with IAS 34 *Interim Financial Reporting* in the first year that the reporting issuer adopts IFRSs. However, IAS 34, and any other financial reporting framework that may be referred to in the notes to the interim financial statements may not require the opening IFRS statement of financial position to be included in the interim financial statements. Therefore, an entity that does not incorporate an opening IFRS statement of financial position in its first 2011 interim financial statements may be in compliance with the issuer’s financial reporting framework but not with securities regulation. When the auditor becomes aware of such

⁸ The comparative information may give the impression of having been audited if, for example, the March 31, 2011 column is marked “unaudited” while the comparative information columns are not marked.

⁹ Canadian securities legislation uses the term “interim financial report” in its prospectus, continuous disclosure and certification rules. This Guide uses the term “interim financial statements” as this is the term used in Section 7050.

non-compliance, he or she may consider drawing this to the attention of management or those charged with governance.

24 There may also be circumstances when the audit committee engages the auditor to perform an interim review on the current period of the interim financial statements, and not the opening IFRS statement of financial position or the comparative interim period(s). In such a case, CSA Staff Notice 51-311 clarifies that securities regulation requires the entity to file a notice indicating that the interim financial statements have not been reviewed by the auditor. If the auditor becomes aware that management fails to file such a notice, he or she may consider drawing this non-compliance with securities regulation to the attention of management or those charged with governance.

4B A reporting issuer has prepared internal 2010 IFRS interim financial statements in anticipation of using those statements as comparative information in the 2011 interim financial statements. The audit committee requested the auditor to issue an interim review report on the internal 2010 IFRS interim financial statements. What matters, in addition to the ones discussed in 4A, should the auditor consider?

What are internal 2010 IFRS interim financial statements?

25 The internal 2010 IFRS interim financial statements are special purpose financial statements prepared using a basis of accounting and are not general purpose financial statements intended to meet the common information needs of external users.

26 The basis of accounting used to prepare the internal 2010 IFRS interim financial statements describes how IFRSs have been applied in the internal 2010 IFRS interim financial statements. If applicable, this includes assumptions management has made about the standards and interpretations expected¹⁰ to be effective as at December 31, 2011, the accounting policies expected to be adopted when management prepares its first complete set of IFRS financial statements as at December 31, 2011, and the reconciliations to existing Canadian GAAP as required by IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

27 The internal 2010 IFRS interim financial statements may be significantly different from the corresponding comparative information in the 2011 interim financial statements for the following reasons:

- The reporting issuer has a number of choices when it adopts IFRSs for the first time. The reporting issuer may not have made final determinations regarding the exemptions

¹⁰ For example, standards expected to be effective may include a combination of IFRSs effective at a specific date and changes proposed in exposure drafts issued as of that date.

it will elect to use in applying IFRS 1 or the accounting policy selections available in various IFRSs, or if it will early adopt any IFRSs that are not effective until after 2011. If management decides to change one or more of the preliminary determinations used to prepare the internal 2010 IFRS interim financial statements, then the corresponding comparative information in the 2011 interim financial statements could differ significantly.

- In the early stages of the reporting issuer's changeover to IFRSs, it may be unclear whether a new IFRS will be in effect when the reporting issuer issues its 2011 interim financial statements. For example, the reporting issuer may choose accounting policies for a particular topic in internal 2010 IFRS interim financial statements that are premised on information available in an exposure draft, with the expectation that there will be no significant changes upon finalization of the standard. In these circumstances, the 2010 IFRS internal interim financial statements could differ significantly from the corresponding comparative information in the 2011 interim financial statements if the expectations do not agree with the final standard.

Applicable standard

28 The work performed by the auditor on the internal 2010 IFRS interim financial statements falls within the scope of Section 7050, *Auditor Review of Interim Financial Statements*. Although the internal 2010 IFRS interim financial statements will not be filed with securities regulators, the interim review is used "to assist the audit committee in discharging its responsibilities with respect to interim financial statements that are to be issued under the provisions of securities legislation."

29 In applying Section 7050, the auditor would consider matters relating to accepting, performing and reporting on the engagement as indicated in 4A. The following provides additional considerations specific to a review of the internal 2010 IFRS interim financial statements.

Nature and extent of procedures

30 As indicated in 4A, performing analytical procedures related to the interim financial statements helps identify and provide a basis for inquiry about relationships and individual items that appear to be unusual and that may reflect a material misstatement of the interim financial statements. Compared to the review of the 2011 interim financial statements, there may be fewer comparisons and meaningful relationships to provide a basis for inquiry for the auditor in a review of the internal 2010 interim financial statements. Consequently, the auditor may need to consider alternative analytical procedures in order to determine whether the internal 2010 interim financial statements may reflect a material misstatement of the interim financial statements. For example,

- (a) When performing early audit work on the opening IFRS statement of financial position, the auditor may become

aware that the entity is electing to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. The auditor would take this information into account in performing analytical procedures on property, plant and equipment and related depreciation.

- (b) When performing the review of the 2010 interim financial statements prepared in accordance with existing Canadian GAAP, the auditor may have inquired of management about unusual or significant events and transactions (for example, business combinations, adoption of new stock compensation plans, changes in major contracts with customers, etc). The auditor would take this information into account when inquiring about how such events and transactions have been reported in the internal 2010 interim financial statements.
- (c) When evaluating the entity's IFRS accounting policies as part of early audit work on the opening IFRS statement of financial position,¹¹ the auditor may become aware that the reporting issuer may be required to capitalize eligible borrowing costs that are currently expensed under existing Canadian GAAP. The auditor would take this information into account in performing analytical procedures on the carrying amount of a self-constructed item of property, plant and equipment and related depreciation.

For some entities, the auditor's analytical procedures may be primarily focused on the adjustments to the 2010 interim financial statements prepared in accordance with existing Canadian GAAP to convert the financial statements to the new basis of accounting.

- 31 Performing a review of the Q1 internal 2010 IFRS interim financial statements may provide the auditor with information that will assist him or her form expectations as he or she performs a review of the Q2 and Q3 interim financial statements.

Reporting

- 32 Paragraph 7050.60 sets out the minimum requirements relating to matters to be included in the interim review report. In addition to these minimum requirements, the auditor may wish to expand the interim review report on the internal 2010 interim financial statements for the following matters:

- (a) to clarify that the interim review report relates to special purpose internal interim financial statements;
- (b) to include an explanatory paragraph stating that the accounting policies applied in preparing the special purpose internal 2010 interim financial statements may be different from those applied in preparing the comparative information in the 2011 interim financial statements;
- (c) to clarify the use of the report.

¹¹ Paragraph 11(c) of CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, requires the auditor to evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

33 Below is an example of an interim review report that may be issued in relation to the internal 2010 interim financial statements.

[Letterhead of reporting issuer's auditor]

[Date]

[Addressee — normally the audit committee]

Dear Sirs/Madames:

In accordance with our engagement letter dated _____, I have reviewed the [condensed] special purpose internal interim financial statements of [name of Company], consisting of:

- the [condensed] statement of financial position as at March 31, 2010;
- the [condensed] income statement for the three-month period ended March 31, 2010;
- the [condensed] statement of other comprehensive income for the three-month period ended March 31, 2010;
- the [condensed] statement of changes in equity for the three-month period ended March 31, 2010; and
- the [condensed] statement of cash flows for the three-month period ended March 31, 2010.

These [condensed] special purpose internal interim financial statements are the responsibility of the Company's management.

I performed my review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditors (an "interim review"). Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; accordingly, I do not express such an opinion. An interim review does not provide assurance that I would become aware of any or all significant matters that might be identified in an audit.

Based on my review, I am not aware of any material modification that needs to be made for these [condensed] special purpose internal interim financial statements to be in accordance with the basis of accounting described in Note X to the internal interim financial statements.

Without modifying my conclusion, I draw attention to the fact that Note X to the special purpose internal interim financial statements explains why there is a possibility that the special purpose internal interim financial statements may require adjustment before constituting the comparative information for the period ended as at March 31, 2011

prepared in accordance with [financial reporting framework disclosed in the interim financial statements].¹²

This report is solely for the use of the Audit Committee of [name of Company] in connection with the entity's conversion to International Financial Reporting Standards as the basis of the preparation of the financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. IWe accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

Yours very truly,

.....
 CHARTERED ACCOUNTANT

Appendix A — Updating an understanding of the entity and its environment

The following sets out the main categories outlined in paragraph 11 of CAS 315 and examples of how this understanding may be affected due to the reporting issuer's changeover to IFRSs.

- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework
 - Expected IFRS policies and adjustments that may be applicable given the reporting issuer's industry and operations.
 - New securities rules and regulations to which the reporting issuer is subject as a result of the changeover to IFRSs.
- (b) The nature of the entity, including its operations, ownership, governance, investments, structure and financing
 - The types of transactions and account balances expected to be affected by the changeover to IFRSs.
 - The impact of the reporting issuer's structure on the reporting issuer's IFRS policies and adjustments.
 - The potential impact of the changeover to IFRSs on loan covenants and other agreements for which certain provisions are based on financial statement figures.
- (c) The entity's selection and application of accounting policies
 - The reporting issuer's accounting policies before the changeover and their applicability under IFRSs, in particular, the changes to accounting policies adopted by the reporting issuer under IFRS.
 - The IFRS 1, First-time Adoption of International Financial Reporting Standards, exemptions applied and options chosen.
 - Changes to the methods the reporting issuer used to account for significant and unusual transactions
 - The effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or no consensus exists under IFRSs.

¹² Canadian securities legislation requires interim financial statements to disclose an undisclosed statement of compliance with IAS 34 *Interim Financial Reporting*. Although disclosure of compliance with IAS 34 is required, management is permitted to make additional references in its financial reporting framework. The reference to the financial reporting framework contained in the interim review report is consistent with that referred to in the notes to the interim financial statements prepared by the entity's management.

- IFRS 1 exemptions and options that may have been made by subsidiaries that previously had transitioned to IFRSs and the effect of the subsidiaries' exemptions and options on the IFRS 1 exemptions and options of the reporting issuer.
- (d) The entity's objectives and strategies and related business risks
 - The impact on changeover to IFRSs on the reporting issuer's objectives and strategies. For example, the reporting issuer's objectives may change if the objectives were based on net income, and net income would be significantly different under IFRSs.
- (e) Measurement and review of the entity's financial performance
 - The effect of the IFRS changeover on the reporting issuer's financial statements and how these might affect measurement of financial performance such as analyst and investor expectations, internal appraisal processes, etc.
 - Any potential bias of management in making the IFRS accounting policy selections.

Appendix B – Updating an understanding of the entity's internal controls

The following sets out the main categories outlined in paragraphs 12-24 of CAS 315 and examples of how this understanding may be affected due to the reporting issuer's changeover to IFRSs.

- (a) Understanding the entity's control environment
 - The knowledge and competencies of the persons selecting and/or applying the IFRS accounting policies and determining and/or making IFRS changeover adjustments.
 - The attitude, awareness and actions of those charged with governance regarding the changeover to IFRSs.
- (b) Understanding of the entity's risk assessment process
 - Understanding the reporting issuer's IFRS changeover processes, including process for selecting its accounting policies (for example, position papers), its project plan, resources applied (for example, IFRS changeover team established), obstacles or issues encountered, etc.
 - Issue resolution process related to the changeover to IFRSs.
 - The reporting issuer's activities to ensure completeness of IFRS adjustments (for example, the depth and breadth of the gap analysis).
 - The nature, timing and extent of the involvement of the audit committee in overseeing management's IFRS changeover process.
 - Education and training related to IFRSs.
- (c) Understanding the information system, including the classes of transactions in the entity's operations that are significant to the financial statements
 - Changes in classes of transactions significant to the financial statements.
 - The reporting issuer's materiality assessment and IFRS scoping plans.
 - Differences between IFRSs and existing Canadian GAAP that the reporting issuer has considered, but determined not to be material.
 - The impact of the changeover to IFRSs on the reporting issuer's cash flows (for example, impact on income taxes, debt covenants and employee benefit plan funding).
- (d) Understanding the information system, including the procedures by which transactions and other events/conditions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements as well as the related accounting records

- Changes to IT systems and processes resulting from IFRS changeover
 - How changes in accounting policies as a result of the changeover to IFRSs are being applied to financial data collected and recorded in the system.
 - Changes to documentation regarding data mapping, data gap analysis, and system modification plans.
- (e) Understanding the information system, including the financial reporting process used to prepare the entity's financial statements and disclosures
- Changes to the financial reporting process as a result of the changeover to IFRSs.
 - Any new systems/processes put in place to track additional IFRS disclosure requirements.
- (f) Understanding the information system, including the controls surrounding journal entries
- Changes to journal entry process that may lead to a risk of management override, taking into consideration that management may be more likely to be able to circumvent normal process during the changeover to IFRSs.
 - Controls over spreadsheets used to record IFRS adjustments (if the changeover is done by spreadsheet process).
- (g) Understanding the entity's communication of financial reporting roles and responsibilities and significant matters relating to financial reporting
- Communication of changes to group policy manuals and group financial reporting manuals as a result of the changeover to IFRSs.
 - Communications between management and those charged with governance with respect to the changeover to IFRSs.
 - Communications made between IFRS changeover team and those affected throughout the reporting issuer, including training, presentations and road shows.
- (h) Understanding control activities
- Any control activities that have changed due to IFRS changeover that the auditor judges necessary to understand in order to identify the types of potential material misstatements in the interim financial statements and consider the likelihood of their occurrence. For example, business performance reviews are often important to overall risk assessment, and could have changed significantly due to IFRS changeover activities.
- (i) Understanding monitoring of controls
- Changes to the reporting issuer's monitoring process as a result of the changeover to IFRSs.
 - The reporting issuer's monitoring process to identify and address inaccuracies of IFRS adjustments as a result of the changeover to IFRSs.
 - The reporting issuer's monitoring process to ensure completeness and accuracy of IFRS adjustments.

5. AUDITOR ASSISTANCE TO UNDERWRITERS

5 *An auditor has been requested to participate in a due diligence meeting relating to a securities offering in 2010. What are some of the questions related to an entity's changeover to IFRSs that underwriters may ask, and how would an auditor answer those questions?*

Section 7200, *Auditor Assistance to Underwriters and Others*, sets out the requirements, and provides guidance, relating to an auditor who has been requested to issue a comfort letter or participate in a due diligence meeting relating to a securities offering. The following provides examples of IFRS-related questions that may be asked in due diligence meetings and comments on the auditor's response. These examples should be read in conjunction with Section 7200.

Questions A to C — Questions the auditor is usually able to answer

Questions D to K — Questions properly addressed to management

Questions the auditor is usually able to answer

A *Has management informed you, or had any discussions with you, regarding any changes to accounting policies with respect to the changeover to IFRSs?*

This question demands a factual answer. The auditor may also wish to convey to the underwriter that auditors and management usually have an ongoing dialogue with respect to potential future issues, and may choose to identify some of the accounting matters on which discussions have taken place.

B *Can you please describe the nature and extent of the procedures you have performed on the financial information in the MD&A relating to the changeover to IFRSs?*

The auditor would respond that his or her professional responsibility with respect to the MD&A is to read the MD&A that accompanies the financial statements and consider whether information in the MD&A is materially inconsistent with the financial statements or with knowledge obtained by the auditor in the course of the audit or review, or in performing the procedures required by Section 7500.

The auditor may also wish to indicate that if he or she becomes aware of information that, although not inconsistent with the financial statements, appears to constitute a misrepresentation or material misstatement of fact, the auditor would not consent to the use of his or her report until the matter has been satisfactorily resolved.

C *Has management or audit committee engaged you to provide assurance or comfort related to the entity's changeover to IFRSs?*

This question demands a factual answer. If the auditor was engaged to perform such an engagement, the auditor may wish to inform the underwriters that the engagement was performed as part of management's overall plan to change over to IFRSs and, therefore, questions regarding the nature of the engagement and results of the work performed should be directed to management.

Questions properly addressed to management

D *Are the IFRS accounting policies and methods disclosed in the MD&A by the issuer appropriate? Please comment on the general fairness [adequacy] of the issuer's accounting policies disclosed in the MD&A. Are these accounting policies consistent with the majority of entities in the same business as the issuer? Would you describe the financial reporting policies of the issuer as conservative / liberal relative to other entities in the industry?*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for selecting appropriate accounting policies is part of management's overall responsibility. The auditor would likely not answer any question about the relative conservatism of the issuer's accounting policies, as there are no generally accepted criteria by which to measure the conservatism of the accounting policies.

E *Can you please comment on the expected impact of the entity's changeover to IFRSs on the financial statements?*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for assessing the impact of the changeover to IFRSs on the financial statements is part of management's overall responsibility.

F *Is management on track to adopt IFRSs? (Or, can you please provide us with an assessment of management's "readiness" for the changeover to IFRSs?)*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for monitoring the changeover process is part of management's overall responsibility. The auditor has no professional basis on which to answer this question.

G *Is the company's disclosure of being on track in their IFRS changeover consistent with your understanding? (Or, Is the company's disclosure in the MD&A regarding its adoption plan consistent with your understanding of their plan?)*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for ensuring proper disclosure of the entity's IFRS changeover is part of management's overall responsibility. The auditor may state that he or she has not monitored the status of the entity's changeover plans. The auditor has no professional basis on which to answer this question.

H *Do you expect the company to be able to file its IFRS financial statements on time?*

The auditor would advise the underwriter that this question can only be answered by management. Management is responsible for filing the entity's financial statements on time and to provide appropriate disclosures if they are unable to file the financial statements on time.

I *In your opinion, does the company have adequate expertise and resources in order to change over to IFRSs?*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for ensuring adequate expertise and resources is part of management's overall responsibility. The auditor has no professional basis on which to answer this question.

J *Management has described the expected impact of the changeover to IFRSs in their MD&A. Does this disclosure encompass the impact of all expected changes as a result of the adoption of IFRSs? (Or, Are you aware of any differences or potential differences between IFRSs and the company's current policies under Canadian GAAP not disclosed in the MD&A? Or, Has anything come to your attention that would lead you to believe that the IFRS financial information in the MD&A is misleading or not materially in accordance with IFRSs?)*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for the accuracy and completeness in an entity's disclosures of the impact of changeover to IFRSs is part of management's overall responsibility. Until the auditor is able to complete an audit of the first set of financial statements prepared in accordance with IFRSs, the auditor would not be able to reply positively or negatively as to whether the impact of the changeover has been properly and completely disclosed by management.

K *In your opinion, are the IFRS disclosures in the MD&A consistent with CSA Staff Notice 52-320?*

The auditor would advise the underwriter that this question can only be answered by management. Responsibility for ensuring disclosures are consistent with securities legislation is part of management's overall responsibility. The auditor has no professional basis on which to answer this question.

6. PERFORMING EARLY AUDIT WORK ON ELEMENTS OF THE OPENING IFRS STATEMENT OF FINANCIAL POSITION

6 *It is early 2010. The entity is in the process of preparing the opening IFRS statement of financial position. The entity has requested the auditor to start performing audit work on elements of the opening IFRS statement of financial position as part of the audit of the December 31, 2011 first IFRS financial statements. What are some of the matters the auditor may consider in accepting, performing and communicating about the early audit work on elements of the opening IFRS statement of financial position?*

Background

- 1 With respect to the changeover to IFRSs, the entity may request its auditor to perform early audit work as part of the audit of the December 31, 2011 first IFRS financial statements on elements of the opening IFRS statement of financial position the entity has prepared. For example, an entity may prepare its analysis of leases and request its auditor to perform audit work on the leases in early 2010, and prepare its analysis of property, plant and equipment and request its auditor to perform audit work on the property, plant and equipment in late 2010.

Acceptance

- 2 It is in the interests of both the entity and the auditor that the terms (for example, objective and scope) of the engagement be finalized on a timely basis, preferably before the commencement of the audit work on elements of the opening IFRS financial statement of position, to help avoid misunderstandings. Professional standards require the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.

Quality control considerations

- 3 If the engagement requires an engagement quality control review to be performed, it is advisable for the engagement quality control reviewer to assume his or her responsibilities as the performance of early audit work on elements of the opening IFRS statement of financial position occurs. This would allow the engagement quality control review to be conducted in a timely manner at appropriate stages during the engagement and significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the report.
- 4 The early audit work performed may impact on the engagement partner's consideration as to whether sufficient appropriate audit evidence has been obtained. As a result, if the firm's quality control policies require the existing engagement partner

to be rotated off the engagement for the December 31, 2011 first IFRS financial statement audit, it would be advisable for the proposed engagement partner responsible for the audit of the December 31, 2011 first IFRS financial statements to be responsible for the early audit work performed on elements of the opening IFRS statement of financial position. The firm would need to consider the future impact, if any, on its engagement partner rotation policies, of having the proposed engagement partner involved with early audit work on elements of the opening IFRS statement of financial position. The firm would also consider similar rotation issues for the engagement quality control reviewer.

Performance

Understanding the entity and its environment

- 5 Professional standards require that the auditor obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement, and to design and perform audit procedures whose nature, timing and extent are responsive to the risk assessments. When performing work on elements of the opening IFRS statement of financial position over an extended period of time, it is important to note that the auditor is still required to obtain such understanding and identify and assess risks of material misstatements in order to design and perform audit procedures on the related elements of the opening IFRS statement of financial position.
- 6 The areas that may be of particular importance in obtaining an understanding of the entity and its environment, including internal control, as they relate to performing early audit work on elements of the opening IFRS statement of financial position, are similar to those listed in Appendices A and B to Q&A 4, "Review of the First Interim Financial Statements in 2011."
- 7 In designing and performing audit procedures on elements of the opening IFRS statement of financial position, the auditor is reminded that if the element of the opening IFRS statement of financial position is associated with a significant risk, professional standards require the auditor to:
 - evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented; and
 - perform substantive procedures that are specifically responsive to that risk.

Accounting policies

- 8 CAS 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment," requires the auditor to evaluate whether the entity's accounting policies are appropriate for its business and consistent with the financial reporting framework and accounting policies used in the relevant industry.

- 9 When evaluating whether the entity's accounting policies are consistent with the accounting policies used in the relevant industry and are appropriate for its business, the auditor may determine that although the accounting policies are appropriate and consistent with requirements of IFRSs, they may not be the most appropriate.
- 10 When the auditor determines that the accounting policies are not the most appropriate, CAS 260, "Communication with Those Charged with Governance," requires the auditor to explain to those charged with governance why the auditor considers a significant accounting practice that is acceptable under IFRSs, not to be most appropriate to the particular circumstances of the entity.

Materiality

- 11 The auditor applies the concept of materiality both when:
- planning and performing the audit; and
 - evaluating the effect of identified misstatements.
- When the auditor is performing early audit work on elements of the opening IFRS statement of financial position, he or she is concerned with materiality at the "planning and performing the audit" stage.
- 12 The determination of materiality is a matter of professional judgment and the auditor considers both quantitative and qualitative factors in making that determination. The auditor may determine that applying a percentage of the entity's assets or net assets may be appropriate when making a preliminary quantitative assessment of what is material to the opening IFRS statement of financial position.
- 13 If, for example, the auditor uses the entity's assets or net assets as a basis for determining preliminary materiality for the audit of the opening IFRS statement of financial position, the auditor may consider whether this preliminary materiality would be significantly higher than the anticipated materiality level for the audit of the December 31, 2010 IFRS comparative financial information (which may be based on the entity's anticipated net income in 2010). If so, the auditor may need to perform additional work to obtain audit evidence to support the absence of misstatements in balances representing opening equity when auditing the December 31, 2010 IFRS comparative financial information. To reduce the likelihood of such a situation, the auditor may take anticipated materiality for the audit of the December 31, 2010 IFRS comparative financial information into consideration when determining preliminary materiality for the opening IFRS statement of financial position.
- 14 The auditor is required to revise materiality if the auditor becomes aware of information during the audit that would have caused the auditor to have determined a different amount initially. If the auditor concludes that he or she has obtained evidence during the engagement that indicates that the materiality initially determined is no longer appropriate, the

auditor should revise materiality, and reconsider the nature, timing and extent of audit procedures. By being conservative in establishing materiality at an early stage, the auditor reduces the likelihood that he or she would have to reduce materiality as the audit progresses.

Auditing estimates

- 15 Paragraph 14 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires an entity's estimates in accordance with IFRSs at the date of transition to be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that these estimates were in error. As a result, an entity is prohibited from adjusting estimates made in accordance with previous GAAP that are reflected in the opening IFRS statement of financial position, solely using hindsight.
- 16 By performing early audit work on elements of the opening IFRS statement of financial position, the entity may be less likely to use hindsight to make accounting estimates. Therefore, it may be desirable for the auditor to perform early audit work on elements of the opening IFRS statement of financial position related to estimates.

Reassessment of work performed

- 17 It is essential that the audit work be re-evaluated in light of new information as the audit of the opening IFRS statement of financial position progresses. This is especially true for audit work performed at an early stage. The auditor would need to re-evaluate whether audit evidence obtained continues to be sufficient and appropriate if, for example, there have been any changes in:
- materiality or risk assessments;
 - the entity's selection and/or application of accounting policies, including IFRS 1 optional exemptions and mandatory exceptions, and early adoption of permitted IFRSs not effective until subsequent to the first IFRS financial statement; or
 - financial statement reporting requirements arising from new or revised IFRSs, including interpretations.

Documentation

- 18 In early 2010, the auditor may be performing the audit of the December 31, 2009 financial statements prepared under existing Canadian GAAP at the same time as performing early audit work on elements of the opening IFRS statement of financial position. Sometimes, audit evidence obtained to support the audit opinion on the December 31, 2009 financial statements may also be used to support the early audit work on elements of the opening IFRS statement of financial position. If the auditor is performing audit work for both purposes concurrently, the auditor is reminded that the objective of audit documentation is to provide a sufficient and appropriate record of the basis for

the auditor's report. Therefore, a good practice is to segregate the documentation of audit evidence supporting the auditor's report on the December 31, 2009 financial statements and the opening IFRS statement of financial position. For example, the auditor may consider the use of two audit files, or a separate section within one file, and be conscientious as to including documentation of evidence obtained in the correct audit file or section.

Communicating with those charged with governance

- 19 Those charged with governance may be interested in the results of the early audit work performed on elements of the opening IFRS statement of financial position. The auditor would provide those charged with governance with timely communications arising from the early audit work that are significant and relevant to their responsibility to oversee the financial reporting process.
- 20 The auditor may provide his or her views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures as the early audit work progresses. Examples of communications of such views can be found in Appendix 2 to CAS 260, "Communications with Those Charged with Governance" and *Communications with Those Having Oversight Responsibility for the Financial Reporting Process*, paragraph 5751.20.
- 21 When performing audit procedures, the auditor may become aware of potentially material misstatements, or material weaknesses (or significant deficiencies) in internal controls over financial reporting. At this early stage, the auditor may not have knowledge of all the facts and circumstances to determine whether the misstatements are in fact, material, or to determine the severity of the weaknesses (or deficiencies) in internal controls over financial reporting. Further, since the entity is still in the process of finalizing its first IFRS financial statements and designing, implementing and maintaining internal controls surrounding the changeover to IFRSs, it may address these matters as the audit progresses. Accordingly, the auditor would use his or her professional judgment in determining the timing, nature and extent of his or her communications of such matters to management and those charged with governance at this early stage.
- 22 If the auditor becomes aware of potentially material misstatements, or material weaknesses (or significant deficiencies) in internal controls over financial reporting, when performing audit procedures on the opening IFRS statement of financial position, he or she would also consider the effect, if any, such matters may have on the audit of the December 31, 2009 financial statements prepared in accordance with existing Canadian GAAP.

23 In addition, the auditor may want to remind those charged with governance of the following:

- Any difference in facts, circumstances or assumptions may change the auditor's views about significant qualitative aspects of the entity's accounting practices, or findings related to potential material misstatements or material weaknesses (significant deficiencies) in internal controls over financial reporting.
- Although the auditor may not have communicated matters related to the auditor's views about significant qualitative aspects of the entity's accounting practices, potential material misstatements, or potential material weaknesses (significant deficiencies) in internal controls over financial reporting, the auditor may communicate such matters in the future. The auditor may wish to inform those charged with governance that the matters communicated are those that the auditor became aware of during the course of performing the early audit work on elements of the opening IFRS statement of financial position. The lack of communication of matters does not mean that the auditor has obtained sufficient appropriate evidence on the specific element of the opening IFRS statement of financial position on which he or she has performed early audit work.
- The auditor's views about significant qualitative aspects of the entity's accounting practices, or findings related to potential material misstatement or potential material weaknesses (significant deficiencies) in internal controls over financial reporting, will be reassessed in the context of the completed audit of the opening IFRS statement of financial position.

7. APPLICATION OF AUDITING STANDARDS ON OPENING IFRS STATEMENT OF FINANCIAL POSITION

7 *Should the CASs or existing auditing standards apply to the audit of the opening IFRS statement of financial position?*

- 1 The transition provisions for IFRSs require that the financial statements in the first year of adoption of the new financial reporting framework contain an opening IFRS statement of financial position.¹³ Therefore, the entity's first IFRS financial statements would include the entity's statements of financial position as at:
 - December 31, 2011;
 - December 31, 2010; and
 - January 1, 2010 (opening IFRS statement of financial position).
- 2 CASs are effective for audits of financial statement periods ending on or after December 14, 2010. Earlier adoption of the CASs is not permitted.
- 3 During an entity's changeover to IFRSs, the entity's auditor would apply the CASs in auditing the December 31, 2011 and December 31, 2010 statements of financial position because these financial statement periods are after the effective date of the CASs.
- 4 There are various supportable views on whether existing auditing standards (for audits of financial statements ending before December 14, 2010) or the CASs should be applied to the January 1, 2010 opening IFRS statement of financial position. Therefore, in auditing this financial statement, the auditor may choose to apply:
 - the existing auditing standards;¹⁴
 - the CASs; or
 - a combination of both.
- 5 In all circumstances, the auditor's report would make references to Canadian GAAS.

¹³ Paragraph 6 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

¹⁴ For audits of opening IFRS statements of financial position as at December 14, 2010 or thereafter, only the CASs apply.

8. CHANGE IN AUDITOR

8 *In 2011, a reporting issuer appointed a successor auditor to report on the first IFRS financial statements for the year ending December 31, 2011. The 2010 existing Canadian GAAP financial statements were audited by a predecessor auditor. What are some of the issues related to a change in auditor that the successor auditor may want to consider in auditing the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position?*

Background

- 1 To comply with IAS 1 *Presentation of Financial Statements*, the reporting issuer's first IFRS financial statements will include the following:

First IFRS financial statements		
First IFRS reporting period	2010 IFRS comparative financial statements	Opening IFRS statement of financial position
Statement of financial position as at December 31, 2011	Statement of financial position as at December 31, 2010	Statement of financial position as at January 1, 2010
Statement of comprehensive income ¹⁵ for the year ended December 31, 2011	Statement of comprehensive income ¹⁵ for the year ended December 31, 2010	
Statement of cash flows for the year ended December 31, 2011	Statement of cash flows for the year ended December 31, 2010	
Statement of changes in equity for the year ended December 31, 2011	Statement of changes in equity for the year ended December 31, 2010	
Related notes to financial statements	Related notes to financial statements	Related notes to financial statement

- 2 The reporting issuer's 2010 IFRS comparative financial statements and the opening IFRS statement of financial position are derived from its December 31, 2010 financial statements and December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP, with adjustments to those statements to convert them to IFRSs ("IFRS adjustments").

¹⁵ Or statements of income and statements of other comprehensive income.

- 3 Canadian securities regulations require auditor's reports on reporting issuers' financial statements to refer to all periods presented in the financial statements. Therefore, the introductory paragraph of the auditor's report on a reporting issuer's first IFRS financial statements would refer to all the statements described in paragraph 1.

Acceptance

- 4 The successor auditor takes full responsibility for obtaining sufficient appropriate evidence on the first IFRS financial statements, including the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position.
- 5 With respect to the auditor's responsibilities regarding the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position, the objective of the successor auditor is to obtain reasonable assurance about whether the 2010 IFRS comparative financial statements and opening IFRS statement of financial position are free from material misstatement, whether due to fraud or error, thereby enabling the successor auditor to express an opinion on whether those statements are prepared, in all material respects, in accordance with IFRSs.
- 6 In achieving the objective of obtaining reasonable assurance about whether the 2010 IFRS comparative financial statements and opening IFRS statement of financial position are free from material misstatement, the successor auditor needs to obtain sufficient appropriate audit evidence on the relevant classes of transactions, account balances and disclosures included in the December 31, 2010 financial statements and December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP, along with the IFRS adjustments.
- 7 Since the successor auditor's opinion covers the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position when reporting on the first IFRS financial statements, the successor auditor would only accept the engagement if he or she is able to comply with the independence requirements for all periods covered by his or her audit opinion.

Initial considerations

- 8 If the successor auditor accepts the engagement to audit the first IFRS financial statements, he or she may consider the information obtained from the review of the predecessor auditor's working papers regarding the audits of the December 31, 2010 financial statements and December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP in planning the audit (see Audit Planning below) of the first IFRS financial statements, including the 2010 IFRS comparative financial statements and opening IFRS statement of financial position.

- 9 The nature, timing and extent of the audit work (see Gathering Audit Evidence below) performed and the conclusions reached on the first IFRS financial statements, including the 2010 IFRS comparative financial statements and opening IFRS statement of financial position, are solely the responsibility of the successor auditor. However, the auditor may consider using the work of the predecessor auditor in gathering audit evidence.¹⁶

Audit planning

- 10 CAS 300, *Planning an Audit of Financial Statements*, requires the auditor to establish an overall audit strategy and develop an audit plan. When conducting an audit of the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position, the successor auditor would establish the overall audit strategy and develop an audit plan consistent with the requirements of CAS 300 and may also consider how the use of the work of the predecessor auditor may assist in developing the audit plan. If the successor auditor is able,¹⁷ and chooses, to use the work of the predecessor auditor to assist in developing the audit plan, the successor auditor considers the information obtained from review of the predecessor auditor's report and audit documentation and inquiries of the predecessor auditor.
- 11 CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, requires the auditor to perform risk assessment procedures to help identify and assess the risk of material misstatements at the financial statement and assertion levels. When conducting an audit of the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position, the successor auditor would consider the risks underlying both the financial statement assertions as originally presented under existing Canadian GAAP and their interaction with the risks identified for the audit of the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position.
- 12 In responding to those identified risks, CAS 330, *The Auditor's Responses to Assessed Risks*, requires the auditor to design and implement overall responses to address the assessed risks. When conducting an audit of the 2010 IFRS comparative financial statements and opening IFRS statement of financial

¹⁶ The predecessor auditor is not:

- a specialist as defined in Section 5049, *Use of Specialists in Assurance Engagements*, or auditor's expert in CAS 620, *Using the Work of an Auditor's Expert*;
- an internal auditor as defined in Section 5050, *Using the Work of Internal Audit*, or CAS 610, *Using the Work of Internal Auditors*;
- a secondary/component auditor as defined in Section 6930, *Reliance on Another Auditor*, or CAS 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*.

¹⁷ The predecessor auditor may not provide full access to his or her working papers or may require the successor auditor to sign a letter of understanding stating that the successor auditor agrees not to use the audit procedures or results thereof documented in the predecessor auditor's working papers as audit evidence in rendering an audit opinion on the entity's financial statements. In such cases, the successor auditor would be unable to use the work of the predecessor auditor for audit evidence.

position, the successor auditor would set an expectation of the nature and extent of audit evidence to reduce audit risk to an acceptably low level and, if applicable, evaluate how the work of the predecessor auditor could be incorporated into the successor auditor's overall audit strategy and audit plan.

Gathering audit evidence

- 13 In responding to identified risks, the successor auditor may consider the following procedures to obtain sufficient appropriate audit evidence on the 2010 IFRS comparative financial statements and opening IFRS statement of financial position:
- Performing specific audit procedures on relevant classes of transactions, account balances and disclosures included in the December 31, 2010 financial statements and the December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP as well as performing specific audit procedures on the IFRS adjustments.
 - Evaluating whether audit procedures performed on the December 31, 2011 IFRS financial statements provide evidence relevant to the 2010 IFRS comparative statements or the opening IFRS statement of financial position.¹⁸
- 14 In addition, the successor auditor would obtain sufficient appropriate audit evidence on the completeness of IFRS adjustments. For example, the successor auditor would need to determine whether retrospective application of costs to property, plant and equipment was IFRS-compliant even if no IFRS adjustments were recorded.

Using the work of the predecessor auditor in assisting the successor auditor in gathering audit evidence



- 15 In performing specific audit procedures on the relevant classes of transactions, account balances and disclosures included in the December 31, 2010 financial statements and the December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP, the successor auditor may consider using the work of the predecessor auditor by performing a review of the predecessor auditor working papers. For example, if the predecessor auditor confirmed accounts receivable balances, the successor auditor may be able to use this audit evidence in support of the existence and accuracy assertions for the accounts receivable balances, assuming the use of the predecessor auditor's work is supported by the successor auditor's risk assessment.
- 16 If the successor auditor is able, and plans, to use the work of the predecessor auditor, the successor auditor would:
- obtain an understanding of the predecessor auditor's independence and professional competence to use his or her work to achieve this objective; and

¹⁸ Paragraphs A6-A7 of CAS 510, *Initial Audit Engagements - Opening Balances*, provide guidance on obtaining audit evidence on the opening balances.

- review the predecessor auditor’s working papers and determine the extent to which he or she may use the predecessor auditor’s work.

17 The extent to which the successor auditor may be able to use the work of the predecessor auditor is influenced by:

- the extent of co-operation of the predecessor auditor (for example, access to working papers) regarding the audits of the December 31, 2010 financial statements and December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP; and
- the appropriateness of the predecessor auditor’s audit work performed and conclusions reached regarding the audits of the December 31, 2010 financial statements and December 31, 2009 statement of financial position prepared in accordance with existing Canadian GAAP.

Extent of the use of the predecessor auditor’s work	Co-operation of the predecessor auditor	Appropriateness of the predecessor auditor’s work
<i>More extensive use of the predecessor auditor’s work</i>	<i>More co-operation</i>	<i>More appropriate</i>
		
<i>Little or no use of the predecessor auditor’s work</i>	<i>Little or no co-operation</i>	<i>Less or not appropriate</i>

18 When using the work of the predecessor auditor, the successor auditor would consider whether to:

- reperform procedures previously performed by the predecessor auditor; and/or
- perform procedures to supplement the work performed by the predecessor auditor.

Determining whether to reperform procedures previously performed by the predecessor auditor or to perform procedures to supplement the work performed by the predecessor auditor is a matter of professional judgment.

19 The successor auditor may also wish to review the predecessor auditor’s working papers for periods other than the December 31, 2010 financial statements and December 31, 2009 statement of financial position. For example, if a business combination occurred in say, 2007, for which a reporting issuer has decided to restate retrospectively under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the successor auditor may wish to review the predecessor auditor’s working papers for that year in determining whether the reporting issuer has appropriately restated the recognition and measurement of the identifiable assets acquired, the liabilities assumed and any

non-controlling interest in the acquiree, in accordance with the version of IFRS 3 *Business Combinations* that is effective at the end of its first IFRS reporting period.

20 When documenting the use of the work of the predecessor auditor, the successor auditor, having regard for the fact that he or she is taking full responsibility for obtaining sufficient appropriate evidence on the financial statements, considers the form, content and extent of audit documentation required to comply with Canadian Auditing Standards, in particular paragraphs 8-11 of CAS 230, *Audit Documentation*.

9. DISCLOSURE OF IFRS INFORMATION

9 *An entity is currently reporting under existing Canadian GAAP and has:*

- (a) disclosed IFRS information in documents containing, or incorporating by reference, financial statements that the auditor has audited or reviewed; or*
- (b) has consented to the use of the auditor's report on financial statements in connection with the documents.*

Which standards in the CICA Handbook – Assurance (Handbook) can the auditor look to for requirements and guidance with respect to this disclosed IFRS information?

1. The changeover to IFRSs does not introduce new auditor's responsibilities.
2. Below are illustrative examples of the applicable standards that may apply to various documents. Readers are reminded that the examples are premised on the basic scenario set out on page 1 of this Guide. That is, the entity has a December 31 year end and is adopting IFRSs for the first time in 2011.
3. Regardless of the applicable standards, the auditor has a professional responsibility, under the provincial institute rules of professional conduct, not to be associated with information that he or she believes, or has reason to believe, is false or misleading.
4. Furthermore, Section 5020, *Association*, describes how a public accountant associates himself or herself with information, the professional responsibilities that stem from such association and the procedures that a public accountant can take to limit the inappropriate use of his or her name.
5. The applicability of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, in the context of annual reports, offering documents, and information circulars is currently under deliberation. Accordingly, the guidance below does not address whether CAS 720 applies in these situations. This guidance will be updated at a later date.

<p><i>Which Section within the CICA Handbook – Assurance is applicable to IFRS information contained in the September 2010 interim Management Discussion and Analysis (interim MD&A) if the auditor performed a review of the interim financial statements prepared in accordance with existing Canadian GAAP?</i></p>	<p>Section 7500, <i>Auditor Association with Annual Reports, Interim Reports and Other Public Documents</i>, in Part II of the CICA Handbook – Assurance would be applicable.¹⁹</p>
<p><i>Which Section within the CICA Handbook – Assurance is applicable to IFRS information contained in the December 2010 annual Management Discussion and Analysis (annual MD&A)?</i></p>	<p>Section 7500, <i>Auditor’s Consent to the Use of the Auditor’s Report in Connection with Designated Documents</i>, in Part I of the CICA Handbook – Assurance would be applicable when the auditor provided consent to the use of the auditor’s report on the December 31, 2010 financial statements prepared in accordance with existing Canadian GAAP filed in connection with the annual MD&A.²⁰</p> <p>The MD&A does not contain audited financial statements or the auditor’s report thereon. Therefore, CAS 720, <i>The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i>, does not apply.</p>
<p><i>Which Section within the CICA Handbook – Assurance is applicable to IFRS information contained in the December 2010 Annual Information Form (AIF)?</i></p>	<p>Section 7500, <i>Auditor’s Consent to the Use of the Auditor’s Report in Connection With Designated Documents</i>, in Part I of the CICA Handbook – Assurance would be applicable when the auditor provided consent to the use of the auditor’s report on the December 31, 2010 financial statements prepared in accordance with existing Canadian GAAP since the auditor is deemed to be associated with the entity’s AIF when the auditor consents to the use of the auditor’s report on an entity’s financial statements filed with a securities regulatory authority.</p> <p>The AIF does not contain audited financial statements or the auditor’s report thereon. Therefore, CAS 720 does not apply.</p>

¹⁹ The interim MD&A may be included, or incorporated by reference, in an offering document. In this case, the Sections contemplated for IFRS information contained in offering documents would be applicable.

²⁰ The interim MD&A may be included, or incorporated by reference, in an offering document. In this case, the Sections contemplated for IFRS information contained in offering documents would be applicable.

<p><i>Which Sections within the CICA Handbook – Assurance are applicable to IFRS information contained in an Annual Report to holders or beneficial owners of the entity’s securities that contain the December 31, 2010 financial statements prepared in accordance with existing Canadian GAAP?</i></p>	<p>Section 7500, <i>Auditor’s Consent to the Use of the Auditor’s Report in Connection with Designated Documents</i>, in Part I of the CICA Handbook – Assurance would be applicable when the auditor provided consent to the use of the auditor’s report on the December 31, 2010 financial statements prepared in accordance with existing Canadian GAAP included in the annual report.</p>
<p><i>Which Sections within the CICA Handbook – Assurance are applicable to IFRS information contained in an offering document, where the auditor consents to the inclusion, or incorporation by reference, in the offering document of his or her report on financial statements that the auditor has audited?</i></p>	<p>Section 7110, <i>Auditor Involvement with Offering Documents of Public and Private Entities</i>, sets out the auditor’s professional responsibilities when he or she is involved with a prospectus or other offering document. Section 7115, <i>Auditor Involvement with Offering Documents of Public and Private Entities – Current Legislative and Regulatory Requirements</i>, sets out the auditor’s responsibilities, in addition to those described in Section 7110 that prevail under current legislative and regulatory requirements.</p> <p>If the offering documents contain, or incorporate by reference, financial statements for periods ending before December 14, 2010:</p> <ul style="list-style-type: none"> • Section 7500, <i>Auditor Association with Annual Reports, Interim Reports and Other Public Documents</i>, in Part II of the CICA Handbook – Assurance would be applicable. <p>If the offering documents contain, or incorporate by reference, financial statements for periods ending on or after December 14, 2010:</p> <ul style="list-style-type: none"> • Section 7500, <i>Auditor’s Consent to the Use Of the Auditor’s Report in Connection with Designated Documents</i>, in Part I of the CICA Handbook – Assurance would be applicable when the auditor provided consent to the use of the auditor’s report on financial statements in connection with the offering document.

<p><i>Which Sections within the CICA Handbook - Assurance are applicable to IFRS information contained in an information circular, other than an offering document?</i></p>	<p>If the information circular contains, or incorporates by reference, financial statements for periods ending before December 14, 2010:</p> <ul style="list-style-type: none"> • Section 7500, <i>Auditor Association with Annual Reports, Interim Reports and Other Public Documents</i>, in Part II of the CICA Handbook - Assurance would be applicable when the auditor has been engaged to read or perform other services with respect to the document. <p>If the information circular contains, or incorporates by reference, financial statements for periods ending on or after December 14, 2010:</p> <ul style="list-style-type: none"> • Section 7500, <i>Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents</i>, in Part I of the CICA Handbook - Assurance would be applicable when the auditor provided consent to the use of the auditor's report on financial statements in connection with the information circular.
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SUMMARY OF CHANGES TO THIS GUIDE

This section of the Guide summarizes new material, or changes to existing material, in each edition.

Highlights of the changes between the 6th edition (February 2011) and the 7th edition (March 2011)

- A new paragraph 14A has been added to Q&A 4 to remind the auditor that if he or she has not previously performed reviews of interim financial statements prepared in accordance with existing Canadian GAAP, to consider the impact this has on the review of the 2011 interim financial statements.

TASK FORCE ON ASSURANCE IMPLICATIONS OF CHANGEOVER TO IFRSs

Members	Organization
Janet Stockton (Chair)	BDO Canada LLP
Gord Briggs	Ernst & Young LLP
Steve Campbell	Deloitte & Touche LLP
Agnes Dykstra	PricewaterhouseCoopers LLP
Claudia Leonardi	KPMG LLP
Renée Pichard	Office of the Auditor General of Canada
Katherine Schamerhorn	Grant Thornton LLP

Observers	Organization
Mark Pinch	Ontario Securities Commission

Staff	
Chi Ho Ng	The Canadian Institute of Chartered Accountants