

How to stay out of the rough

By Jacqui Kuypers
Illustration: Blair Kelly



Understanding and getting started on adopting the new Canadian auditing standards will make the task easier

One day this summer, a group of friends — Lara, Meigan, Caitlin and Jacqui — all CAs, were playing a round of golf. Like many accountants, their minds didn't wander far from work.

Halfway through the round, Lara, a sole practitioner, hit her ball into the rough: "Well, here I am in the rough again! It seems like you standard-setters are going to make audit practice rougher too. The latest release of the Handbook is twice as long as it normally is."

"We're not trying to mess up your golf game or your practice," said Jacqui, who is with the CICA's assurance standards department. The July 2009 release of the Assurance Handbook is bigger because it contains two parts, she explained. Part I includes the Canadian auditing Standards (CASs) and Canadian Standards on Quality Control (CSQCs), as well as sections and guidelines from the existing Handbook that don't relate to audits of financial statements or historical financial information. A few existing guidelines relating to financial statement audits are also included. Part I of the Handbook is effective for years ending on or after December 14, 2010. She went on to explain that Part II of the Handbook includes the existing sections and guidelines and is to be used on engagements that have a year-end before December 14, 2010. "Don't worry about the length — it's only temporary."

"I heard that CSQC 1 has an earlier effective date," said Caitlin, who is with a large accounting firm. "Isn't it effective as at December 15, 2009? My firm has begun updating its system of quality control to be compliant with the new requirements."

"Sounds like your firm is using the right club from their bag," Jacqui joked. "You and your firm are absolutely correct. Everyone should be looking into this sooner rather than later to avoid any penalty strokes."

As they finished the hole, Meigan asked why Part II was included in the Handbook.

"Practitioners may find that they will need to use both parts of the Handbook, depending on the circumstances of the client," Jacqui replied. "For example, Lara mentioned that while most of her clients have December 31 year-ends, she has a couple of November 30 year-ends. In 2010, she will need to use Part II when auditing her November 30th clients, and Part I for her December 31st clients."

Everyone agreed that transitions are never easy.

On the next green, Jacqui noted that Lara had a new putter. Lara said she was trying a new approach because she had been missing so many putts lately. "Speaking of changes, what has really changed in the standards?" she asked, after sinking a 20-foot putt. "You said you're not making things more difficult for me. How different are the CASs from the existing Handbook sections relating to audits?"

There is quite a bit of change, Jacqui explained, but not as much as you think. Many existing Canadian auditing sections were based on the equivalent international standard. "The clarification of the auditing standards by the IAASB and their subsequent adoption in Canada as CASs didn't result in significant changes in these standards," she said. "For example, there were very few changes to standards on fraud, audit risk and audit planning. I know you adopted the new audit risk standards when they were introduced back in 2005, so for you, there are relatively few changes regarding how you assess and respond to risks of material misstatement. It's like buying a new set of golf clubs. If you bought them a few years ago, you're already used to them, but if you buy them this year, it'll take you a bit of time to adjust."

On the other hand, Jacqui continued, some of the auditing standards have changed significantly. "The new audit report looks a lot different from the existing one. Standards related to terms of engagement and group audits also changed quite a bit."

"What's this about the audit report?" asked Meigan, who is a CA in industry. "How has it changed?"

Caitlin asked for an explanation of the differences. "I have a lot of clients who don't understand the current report," she said. "How am I going to explain the new report to them?"

"The new audit report is a lot more de-tailed than the old report," Jacqui said. "In Canada, current GAAS reflects a simple model. General purpose financial statements have to be prepared in accordance with GAAP or US GAAP to get a clean auditor's report. Special purpose financial statements prepared under regulation or contract can be prepared using a non-GAAP framework, but the auditor's report must contain an emphasis of matter paragraph stating that such statements don't follow GAAP. The new auditor's report will contain more information, which is an improvement over the old report. It explains in more detail the role of management and the auditor, and explains what an audit is. The report will include subtitles, which will help draw the reader's attention to the different sections of the report.

"The dating of the audit report has also changed," Jacqui continued. "Instead of the old way of dating a report when the audit is substantially completed, auditors will now be required to date the report no earlier than when those responsible for the preparation of the financial statements have approved them. This may result in reports being dated later than is the case now, which means that more work will have to be done to audit subsequent events, unless the time needed for approving the financial statements is shortened."

"Speaking of more work, I do a lot of group audits," Caitlin said. "I've looked at the new group audit standard. It appears to be a lot more robust than the existing standards, with a number of new requirements. It looks like there will be a lot more work to do under the new CASs — like playing a different course that is longer and has more difficult greens. Is that right?"

"Well, I haven't heard it put that way before," Jacqui said. "But you are right."

"What about materiality?" asked Caitlin. "I've heard the new CAS introduces

different terminology.”

The CASs on materiality include the concept of performance materiality, Jacqui confirmed. “Your firm may use the term tolerable error or adjusted planned materiality to describe this concept. The concept is not specifically addressed in current Canadian GAAS. Some smaller firms may or may not be familiar with it.

“Another difference,” Jacqui said, “is related to auditing going concern issues. The material in current Canadian GAAS is very brief. Some practitioners and firms may have difficulty in dealing with the more robust requirements in the CASs.”

“So, what do I need to do right now?” Lara asked. “You said the CASs aren’t effective for another year.”

“You should become familiar with the CASs and the structure of the Handbook,” Jacqui answered. “Any standard forms, checklists and manuals that you use for audits should be reviewed and updated. You should look at updating your system of quality control as soon as possible. You’ll also need to plan your staff training, and talk to your clients about the changes that they will be seeing as you implement the CASs.”

“It sounds like a lot of work,” Lara said. “Probably more than it will take to get me out of this sand trap!”

“Well, you know that getting out of the sand can be easy if you know what you’re doing,” Jacqui said. “But, like trying to get out of the sand if you don’t practice, it’ll be a lot harder to adapt to the new standards if you don’t start preparing now. Let me show you a couple of tricks for getting out of the sand.” Jacqui showed Lara what to do to get out of a sand trap, and after a couple of attempts she got her ball onto the green.

“You should also keep in mind that, while we’re adopting ISAs as CASs in Canada, standards for other assurance engagements are not changing in the short term,” Jacqui said. “But there are linkages between various sets of standards. The Handbook will be changed over time to deal with these linkages and to apply concepts consistently throughout all assurance standards when appropriate. But this will take time, so some confusion may result in the near term. The IAASB and the AASB have taken a two-year hiatus on any new auditing standards, but changes will be made to the Handbook to address some of these issues.”

“Even with the two-year hiatus, it sounds like a big task,” Lara said. “I guess I should get started soon on preparing to adopt the CASs.”

“You’re right,” Jacqui said. “But let’s finish our game first. Can you help me find my ball? I think it’s in the rough again.”

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