



THE PRACTITIONER'S VIEW

Vol. 8, Issue 1 January 2007

UPDATE ON SERVICE CHANGES AT CRA OFFICES

Service delivery changes are continuing to take place in the Canada Revenue Agency (CRA). In-person service enquiry counters in the tax service offices (TSO) have been replaced with self-serve Internet kiosks and telephones linked directly to call centers. Taxpayers who need a printout from their account can do so via the internet or the call centers.

As of January 1, 2007, walk-in service was replaced with service by appointment only where taxpayers and their authorized representatives book an appointment by calling 1-800-959-8281.

In December 2006, CRA reversed an earlier decision to no longer accept mail or other correspondence in person at their TSO front counters. CRA will now provide a uniform date-stamping service which consists of stamping the sealed envelope received at local office counters with the date of delivery. However, CRA continues to encourage taxfilers to make use of electronic filing services, which automatically provide a confirmation number.

A complete explanation of the changes can be found on the CRA website at www.cra.gc.ca/contact/counters-e.html.

T3 SURVEY RESULTS

During the spring of 2006, a concern was raised by members over the timeliness and accuracy of T3 slips.

This was not a new issue, but letters written to CRA in prior years by individual institutes have not resulted in discernable changes and the issue continues to snowball given the growth in instruments such as mutual fund and income trust vehicles that trigger T3s.

Several provincial institutes agreed to undertake a survey of CA firms preparing personal tax returns and if this issue was affecting CAs and their clients across the country, the profession would coordinate a national approach to the appropriate organizations.

In the months following the conclusion of the 2005 personal tax return season, a short, two minute survey was sent to CA firms in the provinces of Manitoba, British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia. Responses were received from almost 1,500 CA firms who cumulatively process over one million personal tax returns. The survey confirmed the anecdotal information received - there is a problem with T3s.

When asked what the rate of T3 and amended T3 slips being received more than one week after the March 30 filing deadline, 58% of the firms indicated that more than 20% of the T3s were received late, with another 37% indicating they had received between 5 and 20% of the slips late - in total 95% of the firms indicating more than 5% of the T3s were received late.

Practitioner's View is a regular publication of the Institute of Chartered Accountants of Nova Scotia to inform and to serve members who are involved in public accounting in Nova Scotia.

In addition, 53% of the surveyed firms indicated that the late T3s resulted in a major problem due to amendments and corrections of returns already filed, and almost half indicated that the late T3's resulted in major difficulty meeting other tax deadlines.

Members in organizations that produce the T3s are faced with difficulties as well - there will not be a fast and easy solution to this problem.

The profession will coordinate discussions with other organizations and the government to see if we can assist in trying to resolve this issue. While a quick fix is unlikely, your input has provided a strong basis for these discussions. Thank you again for your participation and watch for further developments on this matter.

HAVE YOU REGISTERED FOR: UPDATES FROM THE ACCOUNTING STANDARDS BOARD AND CRA REPRESENTATIVES?

To find out the latest research and direction on private company reporting, be sure to mark your calendar for Friday, **February 9th** for an update by Paul Cherry, Chair of the Accounting Standards Board (AcSB). This session will be followed with a presentation and Q&A by CRA representatives on *My Account*, both personal and corporate.

This event will be held at the World Trade & Convention Center from 12:00 PM to 3:00 PM, lunch included. **Deadline for registration is Friday, February 2nd**. Additional details and registration forms are available on the ICANS website at <http://www.icans.ns.ca/media/documents/PractitionersInfoSession.pdf>.

To date, the AcSB has released four bulletins to keep stakeholders informed of the direction of Canadian Accounting Standards:

- Bulletin No. 1 "Global Positioning: The New Direction" (April 24, 2006)
- Bulletin No. 2 "Private Companies Strategies" (August 16, 2006)
- Bulletin No. 3 "Public Companies and the Move to International Accounting: Getting There From Here" (September 1, 2006)
- Bulletin No. 4 "Canada's Move to International Financial Reporting Standards: Frequently Asked Questions" (January 19, 2007)

These bulletins and related information can be viewed at http://www.acsbcanda.org/index.cfm/ci_id/33030/la_id/1.htm

QUALITY ASSURANCE MANUAL (QAM) UPDATE

As suggested by many who attended the 2005 QAM PD sessions, an update course was developed and offered at ICANS Fall 2006 PD. It gave practitioners an opportunity to revisit the requirements and to review practical implementation issues a year later.

Updating Your Manual for New Requirements

There has only been one revision to the standard in the last year and it deals with the development of a policy regarding the storage of working paper files. Due to consequential amendments from CICA 5145 – *Documentation*, the *GSF-QC, General Standards of Quality Control for Firms Performing Assurance Engagements* have been revised to include a new element of the firm's system of quality control – engagement documentation.

In accordance with *GSF-QC – Engagement documentation* (GSF-QC .085 to .093), which came into effect for periods commencing on or after November 1, 2006, a firm must establish policies and procedures designed to:

- Maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation; and
- Ensure retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

Quality Assurance Manual (QAM) – Update #1

QAM subscribers should have recently received Update #1, which contains the following:

- Documentation policies – the four sample manuals have been updated:
 - to reflect the changes to the GSF-QC standard regarding documentation; and
 - to address assembly and completion of the final audit file within 45 days after the date the auditor's report is issued.
- Practice inspection comments – a new appendix has been added to include comments from practice inspectors, including the Canadian Public Accountability Board (CPAB).

- File Quality Review and Monitor Review Forms – content has been updated to reflect the changes to the audit process contained in the new audit risk standards.

Your Concerns

Some practitioners expressed concern about finding a suitable monitor or file quality reviewer, preferably someone who is not directly competing for the same assurance engagements. Although the standards do not prohibit self-monitoring, practitioners will surely benefit from having a “fresh set of eyes” review their work and are encouraged to seek out and share resources with other practitioners in the province.

Practitioners are also looking for guidance in performing staff evaluations. A useful reference for practitioners are the performance appraisal forms found in *QAM*, Part C – Practice Aids, which include an annual self-assessment and plan, annual appraisal, and specific engagement appraisal forms.

New Practices

For new practices, or those who may have fallen behind the requirements, which came into effect December 1, 2005, CICA has developed a *Quality Assurance Manual (QAM)* aimed specifically at sole practitioners and small firms. The *QAM* is available, at reasonable cost, from CICA at www.knotia.ca to help firms develop quality control policies.

If you have questions about the standards or manual, please contact Wenda Bennett at wbennett@icans.ns.ca.

PROFESSIONAL ENGAGEMENT MANUAL (PEM) UPDATE

PEM update #37 has just been issued. This update contains some changes to the audit forms and **revised material for review and compilation engagements** (in the new *PEM* format). It also includes a three-page guide to completing the risk assessment process which outlines six steps for identifying and assessing risk, control design and implementation.

Subsequent to this release, *PEM* also issued a notice advising practitioners to continue using the NTR communication in *Section 9200* of the *CICA Handbook – Assurance* and not the revised wording contained in the *PEM* update. The revised wording was based on proposed changes to the “Notice to Reader” communication contained in the Exposure Draft issued last fall; however, this has not yet been approved.

The *Professional Engagement Manual* can be ordered through CICA's online bookstore at www.knotia.ca/kStore/Catalogue/ProductDetails.cfm?productID=589&nc=1167416963156.

FOCUS ON PRACTICE REVIEW FINDINGS - 2006

The ICANS Professional Standards Committee examines the annual practice review results to identify those areas where adherence to *CICA Handbook* recommendations could be improved. The committee has expressed specific concerns regarding documentation of audit and review engagements and financial statement presentation. **Appendix A** outlines the common findings, provides direction for addressing deficiencies and summarizes significant new accounting and assurance standards and sources of guidance that will assist practitioners in implementing the new standards.

NEW! AUDIT OF A SMALL ENTITY

Although previously reviewed (in the June 2006 issue of *The Practitioner's View*) practitioners are reminded of the importance of this updated Audit Technique Study. The 3rd edition of the *Audit of a Small Entity* discusses the issues related to small business audits and provides guidance to practitioners looking for practical direction on how to conduct an efficient and effective audit when implementing the new standards for smaller clients, including small not-for-profit entities.

This Study, available at \$50, can be ordered through CICA's online bookstore at www.knotia.ca/kStore/Catalogue/ProductDetails.cfm?productID=589&nc=1167416963156.

PROFESSIONAL LIABILITY INSURANCE

Third Party Civil Penalties – Aggressive Filing, False Statement or Just Doing Your Job?

Canada Revenue Agency (CRA) auditors are now actively proceeding with the assessment of third party penalties under section 163.2 of the Income Tax Act. For an update on this matter, be sure to read the December 2006 issue of *CARM*, a risk management newsletter for chartered accountants published by AICA Services Inc. which can be viewed at www.aica.ca.

GATEWAY – CICA IMPLEMENTATION SUPPORT

(The following article appeared in the August/September 2006 issue of *Folio*, a publication of the Institute of Chartered Accountants of Manitoba and is reprinted with permission of ICAM)

The CICA has developed a website that will serve as a gateway for information about implementing new accounting, assurance, and public sector standards. Its purpose is to serve as a single source for support materials that will help members learn about, or implement, the standards that affect them. Annotated links will be provided to make it easy to find the information that is most applicable to your particular situation.

The Gateway currently has valuable support material for:

- **Financial Instruments**
- **AuG-43 – Policy Liabilities**
- **Audit Risk**

Other areas under development include Revenue Recognition, Reporting Financial Performance, Fair Value Measurement, Auditor Consent and Subsequent Events.

The site is a new venture and these are living documents, therefore you can expect ongoing additions and updates. To access the site, go to www.conferences.ca/ssg/home.html.

CICA CONFERENCES – FOCUS ON PRACTICE DEVELOPMENT

How to Build a Thriving Family Business Practice – June and November 2007, Toronto (Sold out in 2006)

This four-day course will show practitioners how to develop a multi-disciplinary approach to advising their family business clients and enhance their role as the client's most trusted advisor.

Further information is available at <http://www.cica.ca/2/9/3/5/4/index1.shtml>.

The CICA SME Advisors Conference – August 2007, Niagara Falls

This conference will provide CAs in practice with a valuable forum to gather proven tools and acquire new skills that are essential for the proactive SME advisor. Sessions will feature successful practitioners who will share their experience and insight on what works and what doesn't when providing business advisory services to clients. The conference also includes a series of subject matter experts who focus on small business and public practice innovations.

Further information is available at <http://www.cica.ca/1/1/4/5/index1.shtml>.

Final brochures and registration information will be posted in March; by accessing these sites now, practitioners can opt to automatically receive a copy by mail or be notified by email when available.

NEW! SUCCESSION PLANNING TOOLKIT FOR BUSINESS OWNERS

Recent research shows that Canada's aging owners of small-and medium-sized enterprises (SMEs) are facing a crisis in succession — to the point that the future of Canadian independent business hangs in the balance. It also has major implications for the future of Canada's overall economy and job creation potential.

Two-thirds of the SME business owners surveyed said that they plan to exit their business within the next ten years and slightly more than one third within the next five years. Yet over 50 per cent do not have a succession plan to manage their exit as they near retirement, the Canadian Institute of Chartered Accountants (CICA) reports.

"The owners of Canada's independent businesses need to take steps to maintain the value of their hard-earned business investment and ensure the transition of management and ownership goes as smoothly as possible," said Kevin Dancey, FCA, President and CEO of the CICA.

To help business owners prepare for this transition, CICA has published a **Succession Planning Toolkit for Business Owners**. The 10-chapter Toolkit and accompanying checklists give owners the guidance and tools needed to work with their professional advisors to put their succession plans into action.

Copies, available at \$29.95, can be ordered through CICA's online bookstore at www.knotia.ca/store/businessowners.

HAVE YOU SEEN.....?

CICA released several newsletters recently that are relevant to CAs in public practice, such as:

CA Practice Advantage – The December 2006 issue includes synopses of information with links to the web-based sources on topics such as the succession crisis facing SMEs, sources of financing for SMEs, standard practices for Investigative and Forensic Accounting, E&Y Guide to the taxation of Canadian Charities, etc.

CA Practice Advice – Issued in October 2006, the annual bulletin for chartered accountants providing review and compilation services includes a summary of new, revised and proposed auditing and assurance standards, together with effective dates. Also included is a discussion of whether a practitioner is required to calculate materiality when performing a review engagement.

FYI – Special Edition 2006 – This special edition of FYI summarizes pronouncements of the Accounting Standards Board (AcSB) and Emerging Issues Committee (EIC) that should be considered in financial statement preparation for 2006 and 2007 fiscal years. This issue also summarizes significant international activities.

AASB Update – The January 2007 issue highlights some activities of the Auditing and Assurance Standards Board (AASB) with regard to its strategy to adopt International Standards on Auditing (ISAs), including guidelines for modifying ISAs, issuing exposure drafts and final Handbook material, Handbook structure, and adopting ISAs regarding the auditor's report.

PSAB Bulletin - The latest public sector accounting newsletter, issued in October 2006, provides an update on the Board's strategic plan, current projects and project schedule, including a status report on tangible capital assets and performance reporting. Municipal auditors will be pleased to know that an Implementation Guide, "Accounting for Capital Assets by Local Governments" is being prepared to assist local governments with the transition to reporting all capital assets. Publication is expected early in 2007.

These and other CICA newsletters can be viewed on the CICA website at www.cica.ca/index.cfm/ci_id/71/la_id/1.htm.

ICANS PRACTITIONER'S COMMITTEE – REVIVED

Practitioners will be pleased to know that seven members have volunteered to sit on a "new" practitioners committee. In addition to planning the Annual Practitioner's Forum, the committee is looking for other opportunities to enhance communication between practitioners.

The committee has organized an information session for members on February 9th with presentations from the Accounting Standards Board (AcSB) and CRA representatives. Be sure to attend and show your support!

If you have suggestions for the next Forum or other activities, please contact either David Yuill (dyuill@raymondyuill.ca) or Wenda Bennett.

SUGGESTIONS FOR THE NEXT ISSUE?

Contact **Wenda Bennett, CA** at the Institute wbennett@icans.ns.ca or (902) 425-3291.

FOCUS ON PRACTICE REVIEW FINDINGS - 2006

Background

The ICANS Professional Standards Committee examines the annual practice review results to identify those areas where adherence to *CICA Handbook* recommendations could be improved. The committee has expressed specific concerns regarding documentation of audit and review engagements and financial statement presentation. This appendix outlines the common findings, provides direction for addressing deficiencies and summarizes significant new accounting and assurance standards and sources of guidance that will assist practitioners in implementing the new standards.

Audit documentation

Common critical deficiencies with respect to audit engagement documentation were in the following areas **(Please note that for each of the following areas, additional considerations must be made for audits carried out in 2007):**

1. Audit Planning

- *Consideration of the risk of material misstatements in the financial statements due to fraud and error.* The auditor must consider the risks of material misstatements in the financial statements due to fraud and error. The auditor is required to obtain an understanding of management's assessment of the risk that the financial statements are materially misstated due to fraud and error, the internal controls in place to address such risk and to prevent fraud and error, and management's awareness of any known or suspected fraud and discovery of any material errors. Included in the planning documentation should be evidence that the engagement (audit) team has considered the susceptibility of the entity's financial statements to misstatement due to fraud and error. The documentation in the file should include evidence that the auditor has made enquiries with respect to:
 - Management's assessment of the risk that the financial statements might be materially misstated due to fraud.
 - Management's processes for identifying and responding to risks of fraud and error in the entity.
 - Management's communications, if any, to the audit committee or equivalent regarding processes for identifying and responding to risk of fraud and error.
 - Management's communications, if any, to employees of its view on business practices and ethical behavior.
 - Knowledge of any actual, suspected or alleged fraud or material errors from management, internal audit, audit committee or equivalent and others within the entity.
 - Understanding how those charged with governance exercise oversight of management's processes and internal controls for identifying and responding to the risk of fraud and error.

The above requirements have been effective for periods ending on or after December 15, 2004, however, it should be noted that Section 5135, *The Auditor's Responsibility to Consider Fraud and Error* has been revised effective January 1, 2006 to limit the scope of application of the section to only fraud. Material dealing with errors has been moved to other relevant *Handbook* sections such as 5141, 5142 and 5751. For more details on the amendment, refer to *CICA Handbook - Assurance* release no. 22.

- *Preliminary assessment of the components of audit risk (Assessing the risks of material misstatement).* This assessment is among the most significant made in the course of the audit because it is used in determining the extent of auditing procedures to be performed. Consequently, it is important to address and document such decisions during the planning stage.
- *Understanding of internal control (Understanding the entity and its environment, including its internal control).* The auditor's understanding of internal controls assists in the identification of types of potential misstatements and factors that may affect the risk of material misstatements, as

well as the determination of the nature, extent and timing of auditing procedures. Depending on the size and complexity of the client, documentation may range from a brief descriptive memorandum, to more extensive documentation in the form of narrative descriptions, flow charts or questionnaires. Whether a substantive or combined approach is planned, the auditor's understanding of internal control must be documented and must be updated annually.

- *Use of analysis to assist in designing the nature, extent and timing of other auditing procedures.* Analysis is an extremely efficient and effective tool for identifying matters on which the auditor needs to focus in designing the nature, extent and timing of other audit procedures. In addition, GAAS specifically requires analysis to be performed as part of the risk assessment procedures. An unadjusted trial balance can often provide useful insights into potential problem areas through ratio analysis and comparison of account balances with those of the preceding period. The auditor should document such analysis and ensure that any identified areas of concern are appropriately addressed.

The Committee considers the **documentation of audit planning to be as important to small audits**, including those where a 100% substantive audit is planned, as to larger audits. The CICA Audit Technique Study, *Audit of a Small Entity, 3rd Edition* provides useful guidance for documentation of audit planning, risk assessment and internal control for small audit engagements.

2. Substantive Audit Procedures

Documentation of substantive audit procedures should include the test objectives, a description and quantification of the test, the test results, and conclusions drawn from the test. Completion of audit programs, or a list of audit procedures performed, with little else in the way of documentation to describe the details of those procedures, is not sufficient documentation.

The lack of analytical review of the overall financial statement presentation upon substantial completion of the audit, as well as documentation of audit procedures with respect to revenues/sales, payroll and expenses, whether tests of transactions or analytical procedures, continue to be a concern in many reviews.

3. Representation Letters

The most common representations being omitted from representation letters include:

- Representations related to Section 5135 - *The Auditor's Responsibility to Consider Fraud* which requires that the auditor obtain representations from management:
 - Acknowledging its responsibility for the implementation and operation of internal controls designed to prevent and detect fraud.
 - Stating that they believe that those uncorrected financial statement misstatements aggregated by the auditor are immaterial, both individually and in aggregate, to the financial statements as a whole. A summary of such items should be included in the body of, or attached to, the representation letter. In situations where the auditor has made all adjustments, this representation should still be obtained, as there may have been immaterial differences that the auditor passed on adjusting without carrying them forward to a summary of unadjusted differences.
 - Disclosing the results of management's assessment of the risk that the financial statements might be materially misstated as a result of fraud.
 - Disclosing management's knowledge of fraud or suspected fraud:
 - i. Involving management, employees with significant internal control roles and others, where fraud could have a non-trivial effect on the financial statements.
 - ii. Communicated by employees, former employees, analysts, regulators or others.

- Management representations that the significant assumptions used were reasonable and the fact that they reflected management's intent and ability to carry out specific courses of action relevant to the use of fair value measurements and disclosures as required by Section 5306 - *Auditing Fair Value Measurements and Disclosures*.

The standard CICA representation letters contained in the Appendix of 5370 - *Management Representations* and Appendix C of 8200 - *Public Accountant's Review of Financial Statements* address the representations which should be obtained for audit and review engagements respectively.

4. Independence Letters

Auditors are required to communicate at least annually to the audit committee or equivalent confirming their independence and disclosing all relationships between the auditor and the entity and its related entities that may reasonably bear on the auditor's independence. In addition, for entities with public accountability, **which include not-for-profit organizations**, the total fees charged for audit and non-audit services provided by the auditor to the entity and its related entities must be communicated to the audit committee or equivalent.

Prior to completion of the audit, auditors of entities with public accountability are **also required to communicate** to the audit committee or equivalent **a summary of the audit approach**, the level of responsibility assumed by the auditor under Canadian generally accepted auditing standards and the audit and non-audit services to be provided to the entity and its related entities. The *Professional Engagement Manual (PEM)* now includes a sample letter for communication with audit committees with respect to audit planning.

5. Assessment of Independence and Client Retention/Acceptance

ICANS Rules of Professional Conduct 204.1 to 204.8 establish the independence standards that were effective for engagements relating to reporting periods commencing after December 31, 2003. The working papers for audit engagements should include documentation that there has been an assessment with respect to the acceptance/continuance of the engagement and independence.

Review Engagement Documentation

The common critical deficiencies with respect to review engagement documentation include:

1. Enquiry, analytical procedures and discussion to establish plausibility.

The CICA Assurance and Related Services Guideline AuG-20, *Performance of a Review of Financial Statements in Accordance with Sections 8100 and 8200*, provides specific guidance and direction with respect to various aspects of review engagement documentation. Of particular concern are the following issues:

- *Inter-relationship/comparison of revenues, expenses, gross margin, operating ratios and balance sheet items.* The lack of documentation of an analytical review of the financial statements is considered to be a serious deficiency. The Committee noted that the practitioner should focus on key financial statement items or aspects of the clients business, and ensure that checklists, where used, are supplemented by further appropriate documentation. Even if there are no unusual amounts, variances or trends, a comment on the reasonableness of key items should be included on the checklist or referenced to a specific working paper, to evidence that the practitioner gave such items due consideration.
- *Cut-off procedures - cash, sales, purchases/inventory and accounts payable.* Checklists often indicate that additional documentation, for example a brief note or memorandum, be included in either the working papers (cross-referenced back to the checklist) or the comments column of the checklist itself. Typically, this documentation would include a description of procedures followed by the clients to ensure proper cut-off, a conclusion on their adequacy and, if deemed necessary, details of any additional review procedures required to assess plausibility of the statements. Documentation of discussions with the clients would include the name of the individual(s) with whom the matters were discussed and the date of the discussion. Completion of only a checklist without additional comments is not considered to be sufficient documentation of enquiry, analytical procedures and discussion.

- *Inventory - client's count procedures.* As noted with respect to cut-off procedures, completion of checklists without additional documentation is not considered sufficient. Description of inventory count procedures should include more than just the date of the inventory count. Matters such as count instructions, use of count tags, supervision, segregation of obsolete and slow-moving inventory and inventory on consignment should be noted.

2. Assessment of Independence and Client Retention/Acceptance

ICANS Rules of Professional Conduct 204.1 to 204.8 establish the independence standards that were effective for engagements relating to reporting periods commencing after December 31, 2003. The working papers for review engagements should include documentation that there has been an assessment with respect to the acceptance/continuance of the engagement and independence.

Financial Statement Presentation

The committee remains concerned about deficiencies in financial statement presentation in particular with respect to not-for-profit organizations (NFPOs). Sections 4400–4460 of the *CICA Handbook-Accounting* have been effective for fiscal years beginning on or after April 1, 1997 - over nine years ago. Practitioners performing audit or review engagements for NFPOs should be familiar with the above sections and have implemented the recommendations.

Other common deficiencies with respect to financial statement presentation and disclosure include:

1. Disclosure relating to financial instruments including:
 - a. nature and extent of financial instruments including significant terms and conditions that may affect the amount, timing and certainty of future cash flows;
 - b. information regarding exposure to credit risk;
 - c. information regarding exposure to interest rate risk; and
 - d. fair value.
2. Cash Flow Statements - disclosure of interest and income taxes paid.
3. Disclosure of details of authorized share capital.
4. Classification of demand loans and related party loans with no fixed terms of repayment as long-term when file documentation supported a current liability classification. Also consider unsupported non-current treatment of shareholder or inter-company loans.
5. Disclosure of related party transactions including identification of transactions as related party transactions and disclosure of terms and conditions for amounts due to/from related parties and the measurement basis used.
6. Disclosure of the revenue recognition policy, particularly for each revenue stream.
7. Classification of retractable redeemable preferred shares as equity when file documentation supported a liability classification.

Keeping Current with New Standards

1. Quality Control Standards

The CICA's Audit and Assurance Standards Board introduced two new standards relating to quality control: *General Standards of Quality Control for Firms Performing Assurance Engagements (GSF-QC)* and Section 5030 - *Quality Control Procedures for Assurance Engagements*. The Firm Standard was to be implemented by December 1, 2005 for all firms providing assurance services, with the exception of those registered with the Canadian Public Accountability Board (CPAB), for which the implementation date was January 1, 2005.

General Standards of Quality Control for Firms Performing Assurance Engagements (GSF-QC)

In response to concerns expressed by small and mid-sized firms, the CICA published implementation guidance in the form of a *Quality Assurance Manual (QAM)* that complements the *PEM* and includes material to address issues unique to smaller firms and sole practitioners. Practitioners are reminded that each firm is required to have a single quality control manual establishing the common quality

control standards for all the partners of the firm. Each partner of the firm should not have his or her own, individualized quality control manual. The assurance partners of each firm, regardless of its legal structure, should have come to an agreement on the common quality control standards to be adopted by all partners and should have documented those standards. This also affects many partnerships that have been merely cost-sharing arrangements in the past. Moreover, practitioners should not just photocopy the sample manuals set out in the *QAM*. These sample manuals should be tailored to reflect the personal circumstances of the firm including the names of the partners assigned specific quality control responsibilities.

The focus of practice review goes beyond ensuring that practitioners have developed a quality control manual that is suitable for their firm. Implementation will also be reviewed and, in particular, we are looking for the following:

- If the quality control manual was developed based on the *QAM*, has it been appropriately tailored?
- Does the manual include criteria for file quality reviews?
- Is a signed annual compliance declaration on file from each of the partners, employees and contractors?
- Does the manual define the scope and timing of the monitors reports (internal practice inspection)?
- What were the findings of the most recent monitors report (internal practice inspection) and what remedial actions were taken?
- Has the firm adopted policies and procedures designed to promote a culture based on quality (GSF-QC .009)

Section 5030 - *Quality Control Procedures for Assurance Engagements*

The engagement standard, Section 5030, was to be implemented by non-CPAB registrants (the vast majority of practicing firms) for fiscal periods beginning on or after December 1, 2005; the corresponding date for CPAB registrants was periods commencing on or after January 1, 2005.

In 2007, practice reviewers will be checking to ensure that CICA 5030 requirements have been met.

2. Management Representations, Terms of Engagement and Review of Financial Statements

Section 5370 - *Management Representations* and Section 5110 - *Terms of Engagement* were effective for fiscal years beginning on or after August 1, 2005. Section 8200 - *Public Accountant's Review of Financial Statements* was amended with respect to the terms of engagement and management representations for review engagements, also effective August 1, 2005. The *CICA Handbook* and *PEM* both include sample engagement and representation letters that reflect the new standards. Practitioners should ensure that their templates for engagement and representation letters are updated to reflect these standards.

Practitioners should be aware that the new standard includes a requirement to either qualify or deny an opinion when management refuses to provide a written representation (or to express negative assurance with a qualification or denial of assurance in a review engagement report).

3. Audit Risk

For fiscal years beginning on or after January 1, 2006, the assurance recommendations have been amended to reflect new and revised standards for defining the concepts of reasonable assurance and audit risk; understanding the entity and its environment, including internal control, assessing the risks of misstatement and designing audit procedures that are responsive to assessed risk; and for audit evidence. Included are consequential amendments arising from new standards, including terminology changes. The new standards apply to all audits regardless of size. **Firms may need to make significant changes to their audit approaches, including supporting forms, programs and checklists.** Both *PEM* and the CICA Audit Techniques Study *"Audit of a Small Entity – 3rd Edition"* have been amended to reflect the new standards.

New sections added:

- Section 5095 - *Reasonable Assurance and Audit Risk*
- Section 5141 - *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*
- Section 5142 - *Materiality*
- Section 5143 - *The Auditor's Procedures in Response to Assessed Risks*
- AuG-41 - *Applying the Concept of Materiality*

Sections withdrawn:

- Sections 5140 - *Knowledge of the Entity's Business*
- Section 5141 - *Materiality and Audit Risk in Conducting an Audit*
- Section 5200 to 5210 - *Internal Control in the Context of an Audit*
- AuG-31 - *Applying the Concepts of Materiality and Audit Risk in Conducting an Audit*
- AuG-33 to AuG-38 - *EDP Guidelines*

Sections amended:

- Section 5135 - *The Auditor's Responsibility to Consider Fraud*
- Section 5300 - *Audit Evidence*
- Section 5301 - *Analysis*
- Section 5750 - *Communication with Management of Matters Identified During the Financial Statement Audit*
- Sections 5751 - *Communications with Those Having Oversight Responsibility for the Financial Reporting Process*

A new PD course – A to Z of Risk Based Audit has been developed to address the new audit risk standards. This course will be re-offered through the Institute's 2007 Professional Development Program. In addition, the CICA has developed a website that will serve as a gateway for information about implementing new accounting, assurance, and public sector standards. Its purpose is to serve as a single source for support materials that will help members learn about, or implement, the standards that affect them. This website, which can be accessed at <http://www.conferences.cica.ca/ssg/home.html>, currently offers implementation support for the new audit risk standards.

4. Financial Instruments

Section 3855, *Financial Instruments - Recognition and Measurement* expands on Section 3860, *Financial Instruments - Disclosure and Presentation* by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented.

Section 3865, *Hedges*, provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13, *Hedging Relationships*, and the hedging guidance in Section 1650, *Foreign Currency Translation*, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530, *Comprehensive Income*, introduces a new requirement to temporarily present certain gains and losses outside net income.

There are also a number of other consequential amendments to other *Handbook* sections and Accounting Guidelines.

In March 2006, the Accounting Standards Board (AcSB) decided that **non-publicly accountable enterprises** may defer application of *Financial Instruments - Recognition and Measurement*, Section 3855, *Hedges*, Section 3865, *Comprehensive Income*, Section 1530 and related consequential amendments by one year. These new requirements will have mandatory effect for non-publicly accountable enterprises in interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The AcSB agreed to the deferral pending consideration of research into the financial reporting needs of non-publicly accountable enterprises in accordance with the AcSB's new strategic plan. This deferral applies to non-publicly accountable enterprises as defined in Differential Reporting, paragraph 1300.02. Section 1300.02 states that "non-publicly accountable enterprises are enterprises other than public enterprises, co-operative business enterprises, regulated financial institutions and regulated financial institution holding companies, rate-regulated enterprises, government business enterprises and government business-type organizations as defined in the CICA

Public Sector Accounting Handbook". **It should be noted that the deferral does not apply to not-for-profit organizations.**

Two new PD Courses - Accounting for Financial Instruments Level 1 and Accounting for Financial Instruments - Level 2 have been developed to assist members with the implementation of these new standards. These courses will be offered through the Institute's 2007 Spring Professional Development Program. In addition, the CICA Implementation Support Gateway offers extensive information on these new standards.

It is our expectation that practitioners will apply the above benchmarks to their own assurance and related services engagements to ensure that they continue to meet prescribed professional standards.