



THE PRACTITIONER'S VIEW

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AUDIT RISK FOR SMALL ENTITIES – FAQs

Focus on PEM

Further guidance on audit risk for small entities is now available through a special edition of *Focus on PEM*, a newsletter supplement to the *Professional Engagement Manual*. The April 2007 edition addresses the four most frequently asked questions on the application of the new audit risk standards:

- Where do we start?
- What are the key steps involved in the process?
- How do we use the control risk matrices in PEM?
- How can we make the process cost effective for very small entities?

The fourth question is answered by way of an illustrative case study of a small not-for-profit organization that is discussed throughout the article.

Documentation issues such as key PEM forms and how to use them effectively are also addressed. Further, the publication includes a four-step approach for evaluating internal controls, discusses combined risk, performing procedures, evaluating results and forming an opinion. It also provides some key points to consider in "moving forward".

This special edition is a 'must-read' for auditors of small entities and can be accessed, by *both* PEM and non-PEM subscribers, at www.knotia.ca/updates/pem.

Risk Alert

The May 2007 issue of *Risk Alert*, a CICA newsletter for CAs performing audit and review engagements, also deals with implementing audit risk, especially for smaller practices. The purpose of this *Risk Alert* is to put in perspective the key changes between the new audit risk standards and those formerly in effect. It outlines matters that auditors should consider in adopting the new audit risk standards for audits of small entities when the auditor typically takes a substantive approach.

This issue also provides useful reminders for auditors as they continue to implement the quality control standards, particularly with respect to the engagement quality control review process and monitoring of quality control.

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.

PD Course - A to Z of Risk Based Audit

By the end of 2006 all professional staff performing audits should have been fully trained on how to comply with the new risk based approach to auditing. The changes to the way audits will be performed are dramatic. It is estimated that over 35% of the current handbook material on auditing has been replaced or substantially revised.

If you weren't able to attend the previous PD offerings of *A to Z Risk Based Audit*, it's not too late. The course will be offered again on **July 11th - July 12th**, through ICANS Continuing Education program.

This 1½ day course will cover the entire audit process including: an overview of the many changes to the audit process; an explanation of the purpose and use of the completely revised PEM audit forms, and case studies to explore how the requirements will actually work in practice. This course will provide you with practical guidance on how to perform a small entity audit, from start to finish, in accordance with the new standards on audit risk.

Course information and registration forms for Spring PD are available on the ICANS website at www.icans.ns.ca.

FINANCIAL REPORTING STANDARDS FOR PRIVATE ENTERPRISES – THREE OPTIONS TO CONSIDER

Canada's Accounting Standards Board Seeks Input On Proposals For Reporting By Private Companies

What will Canadian GAAP for private enterprise look like? You can help to decide.

Canada's Accounting Standards Board (AcSB) is asking for feedback on three options that will change financial reporting standards for privately-owned companies.

The proposals are contained in an Invitation to Comment and Discussion Paper released May 3rd by the AcSB. Discussion and feedback received during the comment period will inform the board's decision which, in turn, will significantly impact the way financial reporting is carried out by private companies in Canada.

"The fundamental premise is that 'one size does not fit all' when it comes to meeting the divergent needs of Canadian reporting entities," said Paul Cherry, Chair of AcSB, who noted that private companies are now subject to the same Generally Accepted Accounting Principles (GAAP) as all other companies in Canada.

"The transition in Canada to international financial reporting standards for public companies, demanded a separate review of financial reporting standards for private companies," said Cherry. "It is critical that stakeholders get involved in this process, which will govern the course of private company financial reporting for many years to come."

Following a comprehensive examination of the needs of users of private company financial statements, the AcSB has identified three possible approaches for ensuring high-quality, general purpose GAAP financial statements for private enterprises:

- (a) A top-down approach based on public company GAAP (i.e. International Financial Reporting Standards - IFRS). This approach would entail eliminating and modifying a limited number of IFRS requirements much as is done under the current differential reporting model, although not necessarily with the same results.
- (b) Adoption of the standard proposed by the International Accounting Standards Board for small and medium sized enterprises — the IFRS-SME, with perhaps some modification to address Canadian circumstances.
- (c) An independently developed set of Canadian accounting standards for private enterprises. This approach could involve, to a large degree, a fresh start, but it would share the same conceptual framework that underpins current GAAP and IFRS.

The Discussion Paper identifies the pros and cons of each of these approaches. It also requests input on whether non-GAAP guidance should be developed for those entities without significant external financial statement users.

The AcSB plans to hold consultations across the country and will carry out a program of communications to make stakeholders aware of the proposals. All members of the public are entitled and encouraged to

participate. The comment period for the proposals is six months until October 31, 2007. *Individuals and organizations should send written comments to the Board on the proposed approaches.*

The Discussion Paper and Invitation to Comment can be obtained from the AcSB web site at www.acsbcanada.org. For those without Internet access, the documents can be obtained by writing to: Information Services Officer, Accounting Standards Board, 277 Wellington Street West, Toronto, Ontario, M5V 3H2; Fax: 416.204.3412

Find Out More – Attend a Presentation

ICANS invites you to learn more about the private enterprise financial reporting alternatives being considered by the Canadian Accounting Standards Board (AcSB) and to share your views on this very important matter. ICANS is hosting an information session, with a presentation by Paul Cherry, Chair of the Accounting Standards Board, on June 8th in Halifax to provide information and gather feedback. **We encourage you to attend.**

The details of the session are:

**PRIVATE ENTERPRISE FINANCIAL REPORTING:
PROPOSED ALTERNATIVES
Friday, June 8, 2007
8:30 – 10:00 AM
World Trade and Convention Center
Halifax**

Please note that the session is FREE but pre-registration is required. The deadline for registration is Tuesday, June 5th. To register, or for more information, please visit <http://www.icans.ns.ca/events.asp?cmPageID=347>.

And, if you have any questions, please contact Wenda Bennett at wbennett@icans.ns.ca or at (902) 425-3291.

FINANCIAL INSTRUMENTS & NPOs

Three new sections related to Financial Instruments came into effect for fiscal years beginning on or after October 1, 2006: 1530, *Comprehensive Income*, 3855 *Financial Instruments – Recognition and Measurement*, and 3865 *Hedges*. These sections were deferred one year for non-publicly accountable enterprises. However, this **deferral does not apply to not-for-profit entities.**

Support Material

Practitioners looking for additional guidance on Financial Instruments may visit the Implementation Support Gateway on the CICA website. The Gateway was developed to serve as a single source for support materials that will help members learn about, or implement, the standards that affect them.

Now there is a direct link from the CICA home page – it is in the center column, under Education.

PD Course: *Not-for-Profit Organizations - Financial Instruments*

How will the new standards on financial instruments impact the financial statements? If you haven't taken a course or still have questions, consider attending the half-day PD session, *Not-for-Profit Organizations - Financial Instruments*, being offered on **June 13th**, through ICANS Continuing Education program.

This course will provide an overview of the new accounting standards for not-for-profit organizations related to the application of fair-valuing financial instruments. It will also include detailed coverage of problems related to journal entries and financial statement impact of the application of these standards. Comparative presentation of private/public entity reporting will be examined.

Course information and registration forms for Spring PD are available on the ICANS website at www.icans.ns.ca.

COMPILATION ENGAGEMENTS – HANDBOOK REVISIONS

Change in Notice to Reader

Section 9200, *Compilation Engagements*, was revised in April 2007. This revision includes a change in wording of the Notice to Reader communication to remove the phrase “*not...otherwise attempted to verify the accuracy or completeness of such information*”. Although this change in wording applies to communications issued after July 1, 2007, earlier adoption is encouraged.

Changes to this Section were made to address concerns raised by practitioners related to the work effort and, where applicable, disclosure of the lack of independence. In particular, practitioners felt the phrase “*or otherwise attempted to verify the accuracy or completeness of such information*” did not reflect the actual amount of work that must be undertaken to ensure that they are not associated with false or misleading information. Furthermore, the Rules of Professional Conduct of the provincial institutes/ordre contain a requirement that the practitioner disclose lack of independence, if any, in a Notice to Reader. Such disclosure was seen by many to be potentially confusing to readers when the previous paragraph stated that the practitioner did not attempt to verify the accuracy or completeness of the financial information.

Financial Information Prepared For Inclusion with Tax Filings

A further revision removes financial information prepared on government-prescribed forms solely for inclusion with corporate, trust and personal income tax filings, from the scope of Section 9200. Practitioners are no longer required to follow the requirements of Section 9200 when preparing financial information using prescribed corporate, trust and personal income forms, such as the General Index of Financial Information (GIFI) in a corporate income tax return or other schedules (for example, rental, business or farming income) in a personal or trust income tax return.

While *Association*, Section 5020, requires the public accountant to communicate his or her association with financial information, the Auditing and Assurance Standards Board (AASB) does not believe that this association need necessarily be communicated through completion of a compilation engagement in accordance with Section 9200. The AASB believes that such communication can be achieved using the standard disclaimer, for example “prepared solely for income tax purposes without audit or review from information provided by the taxpayer,” that is included with most tax software packages.

THE AUDITOR’S STANDARD REPORT – NO HANDBOOK REVISION

The Professional Engagement Manual (PEM) Update #36, dated November 2006, included proposed revised wording for the standard auditor’s report (Chapter 6.3-3). However, the proposed changes were later withdrawn pending further study. Practitioners should continue to use the wording recommended in *Section 5400.22*.

CASEWARE – MANAGEMENT REPRESENTATION LETTER

The sample management representation letter for review engagements, included in both the standard and enhanced templates for *CaseWare* Update #37, should be revised for signature. The signature portion of the sample letter is taken from the engagement letter, which provides for the CAs signature and the client’s acceptance signature. However, the management representation letter is from the client and should be signed by the CEO or equivalent (see the sample management representation letter in the Audit template).

BANK CONFIRMATIONS - GETTING THE BANK TO COMPLETE

From time to time, practitioners call with a concern that the bank would not fill out a bank confirmation appropriately. As bank operations become increasingly centralized, this will probably happen more often. Consider providing the bank with a copy of the bank confirmation completion instructions from the CICA Bank Confirmation disk, developed by the Canadian Banker’s Association (CBA) and the CICA. In some cases this approach has resulted in cooperation but depends on the circumstances.

The CICA Bank Confirmation Forms are available in electronic format from Knotia at <https://www.knotia.ca/kStore/Catalogue/ProductDetails.cfm?productID=133&nc=1180365350093>.

WATER UTILITY ACCOUNTING and REPORTING HANDBOOK - REVISED

All water utilities and registered municipal auditors should have received a letter from the Nova Scotia Utility and Review Board (NSUARB) advising of a revised *Water Utility Accounting and Reporting Handbook* ("*Handbook*"), dated April 1, 2007.

All water utilities are expected to comply with the new provisions of the *Handbook* effective for the year ending March 31, 2008. A major policy change of note includes the accounting treatment of contributed assets. Utilities are now allowed to record and depreciate the gross cost of assets, including the contributed portion.

Utilities and auditors are advised that the annual financial statements that are filed with the Board must meet the requirements of the *Handbook*, or be returned for redrafting. The *Handbook* includes accounting principles and practices, sample financial statements and outlines the policy and procedures for preparing and reporting on audited financial statements.

The *Handbook* can be found on the NSUARB website at www.nsuarb.ca under the "Water" tab, and then the "Accounting Handbook" tab.

GUIDE TO ACCOUNTING AND REPORTING TANGIBLE ASSETS

A new publication, *Guide to Accounting for and Reporting Tangible Capital Assets*, prepared by the Public Sector Accounting Group of the CICA, will provide guidance for local governments and local government entities that apply the Public Sector Handbook. It will be a useful reference when implementing the new reporting requirements for tangible capital assets, which become effective with fiscal years starting January 1, 2009. The *Guide* contains valuable information on the need for and benefits of accounting for tangible capital assets, implementation considerations and subsequent accounting requirements, and how that information could be linked with ongoing asset management practices.

The *Guide* can be accessed on the CICA website under Standards - Public Sector: Other Non-Authoritative Guidance or directly at http://www.psab-ccsp.ca/client_asset/document/3/7/5/3/6/document_332C65AE-B4BC-163D-DAB2305D5F38B391.pdf.

2007 PRACTITIONER'S FORUM

Be sure to mark your calendar for **Friday, October 26th** as the date of the 2007 Practitioner's Forum, to be held at the Glengarry Inn in Truro.

Your Practitioner's Committee* has been busy working on an agenda for the fall event. Responding to suggestions from practitioners, proposed topics include:

- practice management issues - staff attraction and retention, compensation, billing rates
- technology issues – panel discussion
- capital financing sources
- CRA roundtable
- PSR update
- ICANS update

If you have further suggestions for the Forum or other activities, please contact either David Yuill at dyuill@raymondyuill.ca or Wenda Bennett at wbennett@icans.ns.ca.

*Other members of the 2007 Practitioner's Committee are David Bruce, Bruce & Associates Chartered Accountants Inc; Sue McIsaac, sj mcisaac, Chartered Accountants; John Nash, Nash & Associates; Richard Stevens, Richard R. Stevens Incorporated; Greg Strange, Levy Casey Carter MacLean; and Peter Wilde, Wilde Timmons Michaud Incorporated.

SUGGESTIONS FOR THE NEXT ISSUE?

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