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# IMPLEMENTING THE NEW CANADIAN AUDITING STANDARDS What You Need to Do Now for a Successful Transition

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The new Canadian Auditing Standards (CASs) are fast approaching. This suite of 36 new standards fundamentally mirrors the requirements of the 36 International Standards of Auditing and becomes effective in Canada for periods ending on or after December 14, 2010.

While firms may be tempted to put off thinking about these standards until a full implementation effort in 2010, a successful transition calls for firms to act now. Those firms that postpone the 'heavy-lifting' until next year may find that the changes are too onerous for partners and staff to fully understand and apply. With only a year or less to implement, necessary changes to firm methodology and practices may be compromised. Client interactions may become strained and stressful if clients are not adequately forewarned of the CASs' impact to their financial statements, audit reports and the level and content of coordination and assistance required by the auditors for upcoming audit engagements.

The CASs are coming and there is no way to ignore the conversion. By beginning the process this year, your firm can reap certain benefits. Depending on your client base and existing practices, you may find that auditing under the new rules will result in more work. Firms that spread the transition workload over two years will certainly be better positioned for full compliance by the deadline date. Consider the impact of the new standards on your firm's methodologies, practices and audit programs to appropriately add, revise and delete as necessary. Preparing and educating clients for the upcoming changes is a must to foster good client relations. In fact, this transition should be seen as an opportunity for engagement teams to reinforce with clients that they have a role to play in making the transition be successful.

# WHAT DO I NEED TO DO NOW?

You may be asking yourself, "So, what can I do **now** to prepare for the transition to the new Canadian Auditing Standards that are coming next year?" There are three key steps that you can undertake immediately. By appointing a champion, developing a transition plan and communicating early with clients, you are well on your way to securing a successful transition.

## 1. APPOINT A CHAMPION

You should first appoint one person to champion this initiative. Larger firms may assign a team of people to work together on the CASs implementation but it is recommended to have one person lead the project who is ultimately accountable.

## 2. DEVELOP A PLAN

There is no need to wait to start developing and implementing your plan now.

### Read and Review

First and foremost, your champion should read the CASs. The best way to achieve a full and detailed understanding of the requirements is to read the actual standards. Although many practitioners may cringe at the thought of reading 36 new standards, reviewing them will be easier than you think. In fact, the reaction received from readers thus far has been extremely positive. The CASs follow the new Clarity Format developed by the International Auditing and Assurance Standards Board (IAASB) and this makes them user-friendly and easy to understand. To help you decide which of the CASs to read in detail first, refer to the *CICA's Guide to New CASs in Canada* which highlights similarities and differences between CASs and existing standards.

### Identify and Implement

Initially, you should identify the important differences between current GAAS and auditing under the new CASs. By being alert in the upcoming busy season, you can identify audit practices that you will need to change upon full CASs implementation. This will help you and your clients prepare for what is coming.

You are not permitted to adopt the full body of CASs early but you may decide to implement aspects of the new CASs before their effective date as long as you ensure that you continue to comply with current GAAS. You can, therefore, determine which aspects of the CASs could be implemented early for current period audits. For example, where going concern issues or related party transactions apply, you may choose to use the stronger guidance in the CAS immediately.

#### *A Closer Look*: Going Concern

A standard with notable changes relates to the going concern assumption in the preparation of a company's financial statements. The new *Going Concern* CAS provides the auditor with more specific guidance representing a significant addition to existing GAAS. For example, the CAS requires auditors to consider going concern issues when performing risk assessment procedures and prescribes additional procedures once going concern events or issues are identified. The Appendix to this CAS provides supplementary material as guidance. In an area such as this, where auditors must exercise professional judgment, the added guidance in this new CAS is a welcome bonus. Auditors and clients do not have to wait until 2010 to start using this CAS as a tool for audits..

#### *A Closer Look*: Related Party Transactions

The new standalone CAS on Related Parties is another area that auditors can choose to implement early. This CAS places greater emphasis on making use of a risk-based approach in the consideration of related parties. The auditor is now required to obtain an understanding of the nature and business rationale for any related party relationship and transactions. Auditors must consider the susceptibility of the financial statements to material misstatements due to error or fraud that could result specifically from the entity's related party relationships and transactions. For the sake of completeness, the CAS also provides practitioners with guidance on remaining vigilant throughout the audit process to any additional flags or warning signs of any previously unknown related parties. The level of documentation and communication with those charged with governance is beyond what is required by current GAAS.

Consider your audit client base and determine which engagements and which audit areas you could implement the identified standards early. Make a specific and clear plan and communicate to each affected engagement team.

## Amend Audit Methodology

You should also identify and implement changes to your current audit methodology where possible. This includes ensuring you are in full compliance with the new quality control standard issued by the Auditing and Assurance Standards Board (AASB) with the more imminent deadline of **December 15, 2009**. Any known or anticipated effects or issues related to the new CASs should be noted in the planning memorandum.

## Communicate and Educate

Communication and education are crucial. Internally, all personnel must be made aware of the upcoming standards with more specific follow-up training to delve into the details of each of the standards and their requirements. This communication should be made within the context of the firm's clear plan of partial implementation in the current year with full implementation for 2010. Individuals and engagement teams should be made aware of what the changes are and how these changes will affect their audit assignments.

On a more granular level, you will need to re-launch your revised audit methodology and provide staff training as needed.

The new CASs require auditors to perform truly "risk based audits". If you have already embedded these concepts into your audit methodology, this will not represent a large change. For others, this may mean a fundamental shift in methodology and approach. A learning program for auditors at all levels of the firm should be created to assist staff as they re-think the way they approach their audits. Risk based auditing will surely result in increased audit effectiveness and efficiency if properly executed.

## 3. COMMUNICATE WITH CLIENTS

This is an excellent opportunity to use the rollout of these new standards to educate your clients on the upcoming changes. Specifically, you should explain how the new standards will impact your approach to the audit and the assistance required from client management and staff. Communicating upfront and early should not be an arduous task but it will allow the client ample time to prepare for all the upcoming changes.

## The New Audit Report

Arguably the single most notable change in the standards is the wording of a new audit report. Not only will the new report look quite different under the CASs, but it is significantly longer — six paragraphs instead of the three that practitioners and readers of audited financial statements have come to know. The added material goes beyond the current introduction, scope and opinion paragraphs. The new format provides more information to clarify management's and the auditor's responsibilities and emphasizes that the financial statement audit does not provide a basis for reporting on the entity's internal control.

The CASs also introduce the concept of an "Emphasis of Matter", which refers to a matter that, in the auditor's judgment, is of such importance that it is deemed fundamental to the users' understanding of the financial statements and should therefore be referred to and included in the body of the auditor's report. An auditor might include an Emphasis of Matter paragraph positioned immediately after the opinion paragraph for situations such as when there is uncertainty relating to the future outcome of exceptional litigation or regulatory action or a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position. Clients need to be told about these changes upfront as they will be highly visible to them and all financial statement readers.

## Audit Correspondence Letters

The changes in the audit report, both in wording and format, cascade to the language and content in the various letters auditors send and receive from their clients. For example, engagement letters and management representation letters will need to be revised to comply with the new CASs. Additional and specific requirements in the CASs to communicate with the Audit Committee (and those charged with governance) will result in amendments to a firm's standard letters. Communicate with your clients and educate them in advance of these upcoming changes so they can prepare for their involvement in these correspondences.

## Changes to Audit Process

Some changes to audit requirements under the CASs may result in changes to how you gather audit evidence. For example, the CASs emphasize that the use of legal letters and various confirmations are to be focused on addressing risk. This increase in emphasis may mean that you do not need to send out as many legal letters and other confirmations as you have in the past.

Clients will appreciate being informed upfront on how auditor-client coordination will alter from this year to next. You can attempt to provide the client with examples of how the "prepared by client" schedules will change to give them sufficient lead time to alter their work accordingly.

### *A Closer Look*: Group Audits

The new CAS on group audits has a significantly broader application than current GAAS and this may prove surprising to some auditors. Practitioners need to be aware that the applicability of entities that qualify as a "group" goes beyond a typical parent-subsidiary relationship. In fact, it extends to a head office and one or more divisions or branches (or a combination of both), parent companies with joint ventures, or investees accounted for by the equity or cost methods of accounting. Some groups may organize their financial reporting system by function, process or service, or geographical location. In these cases, the CAS on Audits of Group Financial Statements would also apply. It is imperative that practitioners get a clear understanding of the applicability of this standard — What changes are required? When should these audits be scheduled? Who do I need to coordinate with?

Auditors need to consider the impact of this standard early in the planning process to determine a new audit strategy. Advise clients of these impending changes to receive their full cooperation in providing new and revised schedules. Make clients aware of the increased communication and coordination that will be required among group auditors.

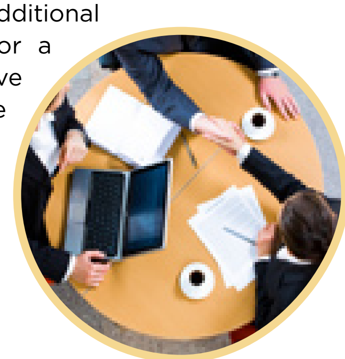
### *A Closer Look*: Dating of Audit Report

The new requirement will be to date the audit report at the point when the auditor has obtained sufficient appropriate audit evidence. This will include, where necessary, an Engagement Quality Control Review as well as other related completion procedures, updated inquiries and representations from management. Auditors can start working with clients immediately to develop a strategy to reduce the time between the completion of fieldwork and completion of the final financial statements. Changes to financial statement approval procedures at clients can help auditors reduce audit time and hence audit fees.

### *A Closer Look*: Audit Report Model

If the audited financial statements are in accordance with Canadian GAAP, the wording and format of the audit report will change but the resulting change in audit work will not be significantly different. Important changes will arise for audits of clients in non-standard situations. Auditors issuing opinions for financial statements that use a basis of accounting other than generally accepted accounting principles (currently covered by section 5600 reports) must consider the CAS implications. Auditors can get a jump-start by understanding the new audit report model and identifying which of their audits will be affected. Auditors should notify their clients of the changes so that they can be ready for the new and revised questions and added assistance that may be required.

Although full implementation of the Canadian Auditing Standards is not required until 2010, consider acting now and spread out the additional workload over two years for a smoother and more effective transition. By acting on these steps—appoint a champion, develop a transition plan and communicate early with clients—you can achieve a successful transition for your firm and your clients.



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