

Canadian Auditing Standards (CAS) – frequently asked questions by clients about the changeover to CAS

Canada is adopting International Standards on Auditing (ISA) as Canadian Auditing Standards (CAS) for the audits of financial statements and other historical financial information. When effective, the CASs will constitute Canadian generally accepted auditing standards (GAAS). CAS comes into effect for periods ending on or after December 14, 2010.

While there is generally overlap between current Canadian standards and the new standards, management and audit committees will see a number of changes in the execution of audits, and financial statement users will see changes in the wording and format of the auditors' report.

Here are some answers to frequently asked questions that management and audit committees may be wondering about at this time.

1. What led to the adoption of global auditing standards in Canada?

For many years, Canada's auditing standard setters have been involved with the efforts of the International standard setters to develop global auditing standards. These efforts have culminated in the recent issuance of reformatted and, in some cases, entirely revised international auditing standards (clarified ISAs) by the International Auditing and Assurance Standards Board. These new standards provide a basis on which auditors worldwide may conduct high quality, consistent and comparable audits. Due to the high quality, consistency and transparency of these standards, Canada's standard setters decided to adopt them fully and discontinue our own separate set of auditing standards for audits of financial statements and other historical financial information.

As a network of firms, PricewaterhouseCoopers LLP (PwC) has been involved in contributing to the development of international auditing standards and ensures that our policies and methodologies have always complied with global best practices. Therefore, the impact on our audits will not be as significant as it will be for audit firms not familiar with existing ISAs.

2. Does the changeover to global auditing standards benefit me and my company?

Yes. The new standards are designed to facilitate high-quality audits that provide assurance over financial statements prepared in accordance with recognized financial reporting frameworks. The changes introduced include requirements and guidance responsive to changes in the business and reporting environment, for example, the trend to globalization, the use of service centres, and widespread adoption of fair value accounting.

The increased emphasis on effective risk assessment procedures and developing audit responses that specifically address the risks of the audit will improve the relevance of what we do. In addition, the emphasis on appropriate and timely communications with management and those charged with governance will help you understand and respond to our audit findings.

3. Will the changeover result in an increase in audit time and effort?

Third party studies, including some sponsored by external regulators, have been performed to assess the impact of Clarity ISAs on auditors' work in different parts of the world. The detailed results of these studies depend on the nature of the investigations, the assumptions made and the previous auditing standards used. However, all studies have concluded that, because the clarified standards are more onerous, increased time will be required of auditors to comply with the new standards.

Comparing the new global standards to previous ISAs, there are approximately one third more explicit requirements that apply to entity audits and a number of new requirements that apply to group audits. About half of the total increase results from clarification of the existing guidance, for example, eliminating ambiguity in the previous standards as to whether a procedure had to be performed or not, and about half relate to new requirements designed to improve audit quality and, consequently, financial reporting. External regulators have, in general, strongly supported these strengthened standards.

Clearly, the absolute increase in requirements will not translate directly into one third extra audit work. In a number of areas, PwC had already anticipated the changes and embedded them in our current audit practices. These additional procedures were typically applied by all the large firms. In addition, whether the requirements will be relevant on each audit will depend on the financial reporting and audit circumstances; many of the requirements are conditional on the prevailing circumstances.

However, implementing CAS will result in some new matters to consider and some new procedures to perform. The standards may require us to make further enquiries of you, request additional information for testing and perform additional audit procedures. By working with you to understand the impact of the changes and to obtain and evaluate where further information and explanations are needed, we aim to minimize disruption and reduce the time needed to respond to the additional requirements. Where we expect audit work to increase, we will draw these matters to your attention early so that cost increases can be minimized.

4. What specific new standards will have the most impact on my company's audit?

We believe that there are several standards that will affect you the most. These are described below.

We encourage you to discuss with your audit team the specifics of how the new standards may impact your particular audit.

<p>CAS 700: Auditor's report: The principle that the auditor is expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with generally accepted accounting principles remains unchanged; however, the structure and wording of the report will change. See Appendix for an example report.</p> <p>The date of the auditors' report has now been explicitly set as no earlier than the date that all audit evidence has been obtained, including final approval of the complete set of financial statements.</p>	<p>CAS 706: Emphasis of matter/other matter paragraphs: Under current Canadian GAAS, it is very rare that an audit report contains an emphasis of matter or other matter paragraph. Under CAS, for example, these additional paragraphs are required when there is a material uncertainty related to going concern, another significant uncertainty or an unusual item, if there is a restatement of the prior period, or when there is a restriction on use of the financial statements.</p>
<p>CAS 540: Accounting estimates: This standard requires an extensive risk assessment to be performed, including auditor review of the outcome of past estimates made. The auditor needs to evaluate estimation uncertainty and perform specific procedures for significant risks, such as evaluating how management has considered alternatives and addressed estimation uncertainty.</p>	<p>CAS 550: Related parties: This standard requires detailed risk assessment procedures (including team discussions, client enquiries and understanding of internal controls) and performance of additional procedures for any related party transactions outside the normal course of business.</p>

<p>CAS 600: Group audits: Elements of the clarified ISA 600, about the audit of groups and working with component auditors had already been anticipated to some extent across PwC. However, introducing the further changes required by this standard will impact our work effort, and understanding the impact and planning the most effective and efficient responses will require careful coordination.</p>	<p>CAS 620: Use of experts: This standard requires more evaluation of when to use an auditor's expert and will likely require more documentation.</p>
<p>CAS 260: Communication to those charged with governance: There are new requirements, in particular, to communicate significant deficiencies in internal control and evaluate the adequacy of two-way communications.</p>	<p>CAS 800, 805, 810: If you require audits of special purpose financial statements, audits of single financial statements or summarized financial statements, there are several new standards that address these situations.</p>

5. My company is small. How might the changeover to CAS affect my company's audit?

CAS will apply to the audits of all types and sizes of entities preparing financial statements. The developers of the standards specifically considered their application to smaller entities to recognize the concentration of ownership and relatively more straightforward business and audit circumstances. Although the audit objectives and principal procedures will be the same, typically, not all procedures will be necessary on the audits of smaller entities due to their simpler processes, and documentation can often be simplified.

On smaller, less complex audits, we will follow the specific smaller entity application guidance provided in CAS. We have, for several years, applied simplified procedures and used tailored tools on the audits of smaller entities; these have been updated for CAS. Through exercise of our professional judgment and tailoring our general procedures to your circumstances, we aim to keep the audit simple yet in compliance with the new requirements.

6. How are assurance engagements other than audits affected, such as interim reviews, review engagements, involvement with prospectuses and reports on controls at a service organization (CICA s.5970)?

Canadian standard setters have only adopted international standards related to audits of financial statements and other historical financial information, as well as standards on quality control of firms. Therefore, existing Canadian standards related to other areas will remain unchanged for now.

7. Where can I learn more about CAS?

Please speak to your local PwC audit engagement team for information specific to your company. Our partners and staff will receive extensive training on the Clarified ISAs and CAS. They can evaluate the impact on your audit and can discuss the specific implications for your audit. We will do everything possible to implement the new standards as smoothly as possible. We very much appreciate your support.

For general background information and a detailed comparison of CAS to current Canadian GAAS, visit The Canadian Institute of Chartered Accountants website, www.cica.ca.

Appendix

Independent Auditors' Report

To the Shareholders of ABC Inc.

We have audited the accompanying financial statements of ABC Inc., which comprise the balance sheet as at December 31, 2010 and the statements of income, retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Inc. as at December 31, 2010 and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Emphasis of matter or Other matter]¹

PricewaterhouseCoopers LLP (signed)

Chartered Accountants

One Lombard Place, Suite 2300, Winnipeg, Manitoba
February 22, 2011

¹ An emphasis of matter paragraph or other matter paragraph is included where appropriate. Refer to CAS 706 for details. Examples are provided below:

Emphasis of matter:

- Significant uncertainty or unusual item in the financial statements, such as going concern uncertainty
- Early application of an accounting standard that has a pervasive effect on the financial statements
- Restatement of financial statements
- Financial statements prepared in accordance with specified basis of accounting

Other matters:

- Restriction on distribution or use of audit report
- Reissuance of financial statements
- Prior period financial statements audited by a predecessor auditor or not audited