



International Auditing Standards

How Will They Affect You?

International Financial Reporting Standards are not the only international standards coming to Canada – so are International Auditing Standards! These International Auditing Standards will be known as “Canadian Audit Standards” in Canada. While there are several changes that will affect auditors, some of these changes will be noticeable to clients and users of audited financial statements.

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The Auditor's Report – A New Look

The most noticeable change will be the form of the standard auditor's report (i.e., clean opinion), which will be as follows:

Independent Auditor's Report

To the Shareholders of ABC Company

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of retained earnings and cash flow statement 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers 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 Company as at December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow

Chartered Accountants

[Date of the auditor's report]

Clarity on Roles and Responsibilities

In addition to the obvious changes, such as a different title, the use of headings and more paragraphs, the new report expands on management's and the auditor's responsibilities.

For management, the report now explicitly refers to their responsibility for those internal controls necessary to enable the preparation of financial statements. This is not a new responsibility for management, but was rather understood to be the case. The new report will draw specific attention to this.

For auditors, the new report now expands upon their responsibilities compared to the old report, including complying with ethical standards, obtaining audit evidence about the amounts and disclosures in the financial statements, and consideration of relevant internal controls. By explicitly referring to these responsibilities, it is anticipated that users will better understand the role of the auditor and the limitations of an audit.

Other Matters Paragraph

The new report may be modified to draw the reader's attention to matters that the auditor believes are fundamental to the user's understanding of the financial statements. These will be presented as additional paragraphs, normally after the opinion paragraph, as "Emphasis of Matter" paragraphs or "Other Matters" paragraphs. These paragraphs may be used when there is uncertainty relating to the future outcome of litigation or regulatory action, an early application of new accounting standards or issues surrounding the ability of an entity to continue as a going concern.

Date of Report

The date of the auditor's report will also change under these new standards. Previously, the report was dated as of the "date of substantial completion", which often coincided with the last day of fieldwork by the audit staff. Now, the report will normally be dated as of the date that the client has approved the financial statements and taken responsibility for the financial statements (i.e., approval by the Board of Directors or those with the recognized authority to do so). As a result of this later dating, the auditor will need to extend their subsequent event review up to this new date.

While there are other changes emanating from the adoption of these new auditing standards, most of the auditor's procedures and practices will not change since many of the old standards were similar to the International Auditing Standards.

These new auditing standards are effective for audits of periods ending after December 14, 2010