

## **FOCUS ON PRACTICE INSPECTION REPORTABLE DEFICIENCIES – 2013-14**

### **BACKGROUND**

The objective of practice inspection that has been adopted by the provincial institutes of Chartered Accountants and the Quebec Ordre of Chartered Professional Accountants is “the protection of the public by assessing the compliance with professional standards of members/firms that perform assurance, compilation and other specified engagements, and by taking appropriate follow-up or remedial action in instances of non-compliance. The public is further protected by practice inspection providing an educational experience to members/firms.”

This was the third year of full implementation of the harmonized evaluation methodology across the country. The harmonized methodology provides for a consistent approach to practice inspection in all provinces and the use of consistent terminology throughout. Harmonization allows the provincial bodies to monitor statistics such as common deficiencies and practice inspection results across the country and identify areas where improvements or training could be required.

Inspected offices are provided with matters identified during the course of the inspection as either reportable deficiencies (reportable to the practice appraisal committee (PAC)) or non-reportable matters (items brought only to the attention of the inspected office and not to the PAC). The office is strongly encouraged to respond to the PAC by stating how it will address the reportable deficiencies identified by the inspector. The PAC will then assess the reportable deficiencies and the office’s response to determine if any further action is required.

The PAC reviews the provincial annual inspection results for Chartered Accountant and Certified Management Accountant practice offices, as well as the common deficiencies determined from the national monitoring of statistics, to identify those areas where adherence to *Handbook* recommendations could be improved. This memo outlines the common reportable deficiencies in the areas of financial statement presentation; documentation of audit, review and compilation engagements; and documentation and implementation of quality control policies and procedures noted during the 2013-2014 inspection cycle. The memo also highlights upcoming changes and current projects which practitioners should be aware of in planning for upcoming engagements.

To assist practitioners in finding guidance on current and upcoming standards, the appendix lists helpful resources and tools that can be used to obtain an understanding of and comply with the various requirements.

### **FINANCIAL STATEMENT PRESENTATION**

Practitioners are reminded that the basis of accounting must be adequately disclosed in the notes to the financial statements. See each section below for the appropriate manner in which to reference the applicable financial reporting framework.

#### **Part II – Accounting Standards for Private Enterprises (ASPE)**

ASPE was introduced for adoption by private enterprises for fiscal years beginning on or after January 1, 2011. An enterprise that prepares its financial statements in accordance with Part II must disclose that the financial statements have been prepared in accordance with Canadian Accounting Standards for Private Enterprises. If desired, such entities may also make the additional statement that the financial statements are in accordance with Canadian GAAP.

#### ***Common Findings – Accounting Standards for Private Enterprises (ASPE)***

The common deficiencies in the 2013-2014 practice inspection cycle related to ASPE were:

- Classification of debt due on demand, including related party debt, as long-term debt – Part II 1510.13, non-current classification of debt is based on facts existing at the balance sheet date, rather than on expectations regarding future refinancing or renegotiation. If the creditor has at the balance sheet date, or will have within one year (or within one operating cycle, if longer) from that date, the unilateral right to demand immediate repayment of any portion or all of the debt under any provision of the debt agreement, the obligation is classified as a current liability unless:

- the creditor has waived, in writing, or subsequently lost, the right to demand payment for more than one year (or operating cycle, if longer) from the balance sheet date;
  - the obligation has been refinanced on a long-term basis before the balance sheet is completed; or
  - the debtor has entered into a non-cancellable agreement to refinance the short-term obligation on a long-term basis before the balance sheet is completed and there is no impediment to the completion of the refinancing.
- Income taxes – Part II 3465, the accounting policy is not always disclosed. An entity must adopt the income taxes payable method or the future income taxes method. When the income taxes payable method has been adopted by the entity, the disclosures should include a reconciliation of the income tax rate/expense related to the income or loss for the period, the amount and timing of capital gain reserves and similar reserves to be included in taxable income within five years, the amount of unused income tax losses carried forward and unused income tax credits, and the portion of income tax expense (benefit) related to transactions charged (or credited) to equity per paragraph 3465.88.
  - Revenue recognition – Part II 3400, the accounting policy is not always disclosed. All entities are required to disclose the revenue recognition policy for each material type of revenue transaction.
  - Disclosure of inventory – Part II 3035.35, the accounting policy may be disclosed, but the cost formula is not. An enterprise must disclose the same cost formula (FIFO, weighted average) for all inventories of a similar nature and use.
  - Disclosures of issued share capital – Part II 3240. Practitioners should be mindful of the disclosure requirements with respect to preferred shares issued in a qualifying tax planning arrangement, as set out in Part II 3856.23. If the preferred shares are not issued in connection with a tax planning arrangement, determination must be made of the classification of the shares as either a liability or equity.
  - Related party transactions – Part II 3840, terms and conditions, nature and extent of transactions, description of relationship, measurement basis were not always disclosed.
  - Financial instruments – Part II 3856, the nature and extent of financial instruments and credit risk, interest rate risk, currency risk and fair value, if considered a significant risk for the entity were not always disclosed.

### ***Current Projects – Accounting Standards for Private Enterprises***

The 2014 Annual Improvements Exposure Draft was released in March 2014, with a deadline for comments in June 2014. Final material is scheduled for release in October 2014 with edits to the following sections: Employee Future Benefits (Section 3462) and Financial Instruments (Section 3856).

A discussion paper on Agriculture is expected to be released in Q4 2014, as there is a significant diversity in practice regarding the accounting for biological assets.

Two exposure drafts are set to be released in 2014:

- The accounting for redeemable preferred shares issued in a tax planning arrangement, as set out in Financial Instruments, paragraph 3856.23, is being re-examined. A number of issues have arisen in respect of redeemable preferred shares. Issues include scope, reclassification and measurement.
- The accounting for a subsidiary as set out in Section 1590 that uses the cost or the equity method will be clarified; currently, there is an accounting policy option for private enterprises to either consolidate its subsidiaries or account for its subsidiaries using the equity method or the cost method. This project will examine whether the requirements of Section 1582, Business Combinations, should apply when a private enterprise chooses to account for its subsidiaries using the cost or the equity methods of accounting.

**For more information on project updates go to: <http://www.frascanada.ca/standards-for-private-enterprises/projects/active/item56206.aspx>**

### **Part III – Accounting Standards for Not-for-Profit Organizations (ASNFPFO)**

ASNFPFO was introduced for adoption by not-for-profit organizations related to fiscal years beginning on or after January 1, 2012. An enterprise that prepares its financial statements in accordance with Part III must disclose that the financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. If desired, such entities may also make the additional statement that the financial statements are in accordance with Canadian GAAP.

### ***Common Findings – Accounting Standards for Not-for-Profit Organizations***

The common deficiencies in the 2013-2014 practice inspection cycle related to ASNFPFO were:

- First-time adoption of ASNFPFO – Part III 1501. While it is anticipated that most existing not-for-profit organizations will have adopted ASNFPFO within the required timeline (fiscal years beginning on or after January 1, 2012), practitioners are reminded that any entity adopting this framework for the first time should be guided by the accounting and disclosure requirements of Part III 1501. In particular, paragraph .04 states that “An organization prepares and presents an opening statement of financial position at the date of transition to accounting standards for not-for-profit organizations. This opening statement of financial position is the starting point for the organization's accounting under accounting standards for not-for-profit organizations.”
- See a guide on the implementation of ASNFPFO: [http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69430.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69430.pdf) OR [http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69429.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69429.pdf)
- Financial Instruments – Part II 3856, the nature and extent of financial instruments and credit risk, interest rate risk, currency risk and fair value, if considered a significant risk for the entity were not always disclosed. Practitioners should be aware that Part II 3856 also applies to ASNFPFO.
- Revenue recognition – Part III 4410, the accounting policy is not always disclosed. All entities are required to disclose the revenue recognition policy for each material type of revenue transaction.
- Preparation of cash flow statements – Part II 1400.03, 1540.03, Part III 4400.46. Cash flow statements are now required under all accounting frameworks with the exception of Part IV – Pension Plans.
- Tangible Capital Assets – Part III 4431, were not amortized over the useful life of the tangible capital asset. Unless the not for profit organization meets the criteria of a small organization in Part III 4431.03, it should capitalize tangible capital assets. An organization that capitalizes its tangible capital assets must amortize them.
- Description of the organization – Part III 4400, a clear and concise description of a not-for-profit organization's purpose, its intended community of service, its status under income tax legislation and its legal form were not always disclosed.

### ***Current Projects – Accounting Standards for Not-for-Profit Organizations***

In April 2013, a Statement of Principles related to the review of standards for NFPOs was released with a comment deadline of December 15, 2013. The Statement of Principles (SOP), which contains 15 proposed principles, is the first major step in the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) due process for developing improved standards. This SOP, titled *Improvements to Not-for-Profit Standards* is applicable for both private not-for-profit organizations applying the *Handbook – Accounting Part III* and government not-for-profits choosing to follow PS 4200.

Private not-for-profits applying the *Handbook – Accounting Part I* (International Financial Reporting Standards) and government not-for-profits applying the *Handbook – Public Sector Accounting* without the

PS 4200 series are not affected by this SOP. The Boards acknowledge that the effects of the proposals are significant.

The AcSB and PSAB met together in June 2014 to begin the process of jointly considering written responses to the SOP. The Boards began the process of assessing the overarching principles and questions that need to be considered and additional information that should be gathered as the Boards progress with the project; and discussed next steps and how they can continue to collaborate on this topic. No decisions were taken. The Boards will provide ongoing communications to inform stakeholders of developments.

**For more information go to: <http://www.frascanada.ca/standards-for-not-for-profit-organizations/projects/active/item56097.aspx>**

### **Part I - International Financial Reporting Standards**

International Financial Reporting Standards (IFRS) are required for publicly accountable enterprises (PAE) and government business enterprises (GBE) and are optional for private enterprises and private not-for-profit organizations. A PAE is defined as an entity, other than a not-for-profit organization, or a government or other entities in the public sector, that has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market, or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

First-time adoption of Part I of the *Handbook – Accounting* by publicly accountable enterprises was mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011. Investment companies and segregated accounts of life insurance enterprises are required to adopt IFRS for periods beginning on or after January 1, 2014. Entities with rate-regulated activities are required to adopt IFRS for periods beginning on or after January 1, 2015.

While it is anticipated that most existing entities have already adopted IFRS within the required timeline, practitioners are reminded that any entity adopting this framework for the first time should be guided by the accounting and disclosure requirements of the *Handbook – Accounting Part I*; IFRS 1, First-Time Adoption. In particular, paragraph .06 states that “An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting in accordance with IFRSs.”

An entity that prepares its financial statements in accordance with Part I must disclose that the financial statements have been prepared in accordance with international financial reporting standards.

### ***Common Findings – International Financial Reporting Standards***

The common deficiencies in the 2013-2014 practice inspection cycle related to IFRS were:

- Lack of disclosure of the domicile of the entity, and the address of its registered office or principal place of business (IAS 1.138).
- Lack of disclosure of date of authorization of the financial statements and who gave that authorization (IAS 10.17).
- Lack of disclosure of the objectives, policies and processes for managing capital and of the items comprising managed capital (IAS 1.134 and 1.135).
- Lack of disclosure of the relationship between tax expense (income) and accounting profit (IAS 12.81).
- Lack of disclosure regarding concentrations of risk, objectives, policies and procedures for managing risk, methods for measuring risk, and quantitative data about the exposure to risk (IFRS 7.31 -.34).
- Lack of disclosure of market risks and sensitivity analysis (IFRS 7.40, B17 - B28).

- Lack of disclosure of key management personnel compensation (IAS 24.17).

#### **Current Projects – International Financial Reporting Standards**

A summary of all current active projects can be found at:

<http://www.frascanada.ca/international-financial-reporting-standards/projects/active/item55217.aspx>

#### **Public Sector Accounting Standards**

The Public Sector Accounting Board (PSAB) establishes generally accepted accounting principles for governments and governmental organizations, including government not-for-profit organizations. The standards issued by PSAB can be found in the *Handbook – Public Sector Accounting*.

The decision tree in Appendix A of the Introduction to Public Sector Accounting Standards in the *Handbook – Public Sector Accounting* will help organizations determine which basis of accounting they should follow. Consideration must be given to the definitions of control, government business enterprises and government not-for-profit organizations when applying the decision tree. These definitions can be found in the Introduction to Public Sector Accounting Standards and PS 1300.

The following summarizes the accounting standards that are applicable for various public sector entities:

- Governments follow Public Sector Accounting Standards.
- Government not-for-profit organizations have a choice of following Public Sector Accounting Standards with or without the not-for-profit standards (4200 series) within the *Public Sector Handbook*.
- Government Business Enterprises follow IFRS.
- Other Government Organizations have a choice of following Public Sector Accounting Standards or IFRS.

Practitioners are reminded of the numerous standards that were issued in March 2012. The effective date is for years beginning on or after April 1, 2016, with early adoption encouraged. The effective date is for fiscal years beginning on or after April 1, 2012 for **government organizations** that applied the *Handbook – Accounting* prior to their adoption of the *Public Sector Accounting Handbook*. These standards must be adopted at the same time.

- PS 3450, Financial Instruments
- PS 2601, Foreign Currency Translation
- PS 1201, Financial Statement Presentation
- PS 3041, Portfolio Investments

#### **Common Findings – Public Sector Accounting**

The common deficiencies in the 2013-2014 practice inspection cycle related to Public Sector Accounting Standards were:

- Presentation of the statement of change in net debt did not include a comparison with budget (PS 1200.123, 1201.131).
- Lack of accounting policy related to the composition of cash and cash equivalents (1200.118, 1201.126).
- Disclosure of government segments did not include the basis for identifying segments and the nature of the segments and activities they encompass (PS 2700.26).

Practitioners in Saskatchewan who use the PSAB template are reminded that the financial statements, including note disclosures should reflect the entity specific circumstances.

#### **Current Projects – Public Sector Accounting Standards**

In April 2013, the Accounting Standards Board in conjunction with the Public Sector Accounting Board (PSAB) issued a Statement of Principles (SOP). This SOP, titled *Improvements to Not-for-Profit Standards* is applicable for both private not-for-profit organizations applying the *Handbook – Accounting*

*Part III* and government not-for-profits choosing to follow PS 4200. Private not-for-profits applying the *Handbook – Accounting Part I* (International Financial Reporting Standards) and government not-for-profits applying the *Handbook – Public Sector Accounting* without the PS 4200 series are not affected by this SOP.

On June 17, 2014 the AcSB and PSAB met together to begin the process of jointly considering written responses. Information and updates can be found on the Financial Reporting and Assurance Standards Canada website at: <http://www.frascanada.ca/standards-for-not-for-profit-organizations/projects/active/item56097.aspx>

## REVIEW ENGAGEMENTS

Section 8100, *General Review Standards*, of the *Handbook - Assurance* requires the documentation of matters which are important to support the content of the review engagement report. The 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. The guidance indicates that documentation such as **evidence** of planning, **memoranda** of inquiries and discussions and **results** of analytical procedures are normally considered necessary for review engagements.

While checklists are a good tool for performing a review engagement, the completion of only a checklist without additional comments is not considered to be sufficient documentation of the public accountant's inquiries, analytical procedures and discussions. Documentation of inquiries, analytical procedures and discussions may be included in either the working papers (e.g. memos) that are cross referenced back to the checklist or the comments column of the checklist itself. Documentation of discussions with clients would also include the public accountant's conclusion, the name of the individual(s) with whom the matters were discussed and the date of the discussions.

### **Common Findings – Review Engagements**

The common deficiencies in the 2013-2014 practice inspection cycle related to the performance of review engagements were:

- **Inquiry, analytical procedures and discussion to establish plausibility**  
The areas in which documentation of inquiry, analytical procedures and discussion was weak were as follows:
  - **Inter-relationship/comparison of revenues, expenses, gross margin and balance sheet items** - The practitioner should focus on material financial statement items, or key aspects of the client's business. Even if there are no unusual amounts, variances or trends, an assessment of the plausibility of material items should be included to evidence that the practitioner gave such items due consideration.
  - **Assessment of client's cut-off procedures** - Typically, documentation would include a description of procedures followed by the client 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 related balances.
  - **Assessment of client inventory count procedures and inventory valuation** - Typically, documentation would include a description of the client's inventory count procedures, including the date of the inventory count, including matters such as count instructions, use of count tags, supervision, segregation of obsolete and slow-moving inventory and inventory on consignment, to assess whether the procedures are designed to arrive at a proper and consistent count. The client's basis of determining "cost" (FIFO, specific item, etc.) and whether that basis is consistent should be documented.

- **Identifying contingencies, commitments and subsequent events** - Typically, documentation would include matters discussed with the client, including name and title of individual inquired and date of the inquiry, which should be up to the date of the Review Engagement Report.
- **Plausibility of amounts paid/received during the year with respect to GST as well as the year-end balance** - Consideration should be given as to whether a copy of the year-end GST return is sufficient documentation to support the plausibility of the amounts paid/received during the year and the year-end balance.
- **Assessment of acceptance or continuance**  
There was no documentation that an assessment of acceptance or continuance of the review engagement had been completed in many instances.
- **Engagement and representation letters omitting required inclusions**  
Most review engagement files included these documents, but in some instances certain required disclosures were omitted; the disclosures are set out in *Handbook – Assurance*, Other Canadian Standards, Section 8200.
- **Review Engagement Report**  
An additional paragraph in the year of transition to a new financial reporting framework stating that the prior year figures were neither audited nor reviewed when the practitioner has not undertaken to review and report on the prior year figures under the new framework was often not included in the report or disclosed in the notes to the financial statements (refer to *Handbook - Assurance* 8100.41).

If the practitioner was engaged to review and report on the prior year figures under the new framework, this should be specified in the engagement letter, the additional review procedures should be documented in the file and the review engagement report and the management representation letter should specifically reference both years. The appropriate report, disclosure and file documentation was often missed in the review engagement reports and/or financial statements reviewed this past inspection year.

Reference to the specific financial reporting framework.

With the restructuring of the *Handbook - Accounting* to include various different financial reporting frameworks in Canadian GAAP, the reference to “Canadian Generally Accepted Accounting Principles” in the practitioner’s report is no longer descriptive enough. Both the financial statements and the practitioner’s report need to reference the specific financial reporting framework that is being applied. Guidance on the appropriate references for the various financial reporting frameworks can be found in the preceding sections on financial statement presentation under each framework.

### **Current Projects - Review Engagements**

In June 2013, the Auditing and Assurance Standards Board issued an Exposure Draft that proposes a new standard dealing with engagements to review historical financial statements to replace the existing review engagement standards that cover the same matters. Comments received from Canadian stakeholders are being deliberated and the next steps are to be determined. The AASB has decided that, as a result, the effective date of the standard proposed in the Exposure Draft will be deferred from that initially proposed which was for periods ending on or after December 14, 2015.

**Refer to <http://www.frascanada.ca/assurance-and-related-services-standards/projects/active/item55514.aspx> for updates on this project.**

### **COMPILATION ENGAGEMENTS**

Section 9200 of the *Handbook – Assurance* establishes the standards for compilation engagements.

### **Common Findings – Compilation Engagements**

The common deficiencies in the 2013-2014 practice inspection cycle related to the performance of compilation engagements were:

- There were numerous instances in which the compilation file did not include evidence that the practitioner had considered his or her independence. Although the performance of a compilation engagement does not require that the accountant be independent, any activity, interest or relationship that may impair the accountant's independence should be disclosed in a separate paragraph in the Notice to Reader.
- The notes to the financial statements included a reference to generally accepted accounting principles.
- An engagement letter was not obtained or was outdated. The file should document that the public accountant has reached an understanding and agreement with the client regarding the services to be provided.

### **Current Projects - Compilation Engagements**

The AASB has determined that there may be a need for a clarified standard that provides requirements and guidance on specific matters that have caused confusion and ambiguity in performing compilation engagements. This project includes determining the nature and extent of revisions that should be made to Section 9200, *Compilation Engagements* and may involve adoption of International Standard on Related Services (ISRS) 4400, *Compilation Engagements*.

**Refer to <http://www.frascanada.ca/assurance-and-related-services-standards/projects/active/item55562.aspx> for updates on this project.**

## **AUDIT ENGAGEMENTS**

The Canadian Auditing Standards (CAS) apply to all audits of financial statements and were effective for fiscal years ended on or after December 14, 2010.

### **Common Findings – Audit Engagements**

The common deficiencies in the 2013-2014 practice inspection cycle related to the performance of audit engagements were:

- Risk assessment – The auditor is required to identify and assess the risks of material misstatement, whether due to fraud or error, at both the financial statement **and** assertion levels (CAS 315.03; .05). There was often a lack of documentation to support the assessment of risk at one or both levels. Further, when risks are identified, documentation should indicate whether they are considered significant risks.

The auditor should develop an audit plan that addresses the assessment of risks. The audit plan should provide **a clear linkage** between the risk assessment and the nature and extent of planned audit procedures. We have commonly found that practitioners are not considering the identified risks when developing the detailed audit plan.

- Fraud risk factors – In accordance with CAS 240.26, the auditor ordinarily presumes the existence of fraud risk in revenue recognition. In circumstances where the auditor concludes that such a presumption is not applicable, the reasons for such conclusion should be documented (CAS 240.47).

Other procedures that should be documented as part of the auditor's fraud risk assessment are: discussions with management (CAS 240.17 - .18; CAS 315.06); discussions with those charged with governance (CAS 240.20 - .21; CAS 315.06) and the engagement team meeting (CAS 240.15; CAS 315.10).



Documentation of the results of the discussions and the names of the individuals who participated in the discussions was often not included in the audit engagement file.

- Materiality – CAS 320 requires the determination of performance materiality for all audits, and, if applicable, specific materiality for particular classes of transactions, account balances or disclosures. While overall materiality was generally calculated and supported the other materiality levels were not.
- Preliminary analytical procedures – As part of the risk assessment procedures, CAS 315.06(b) requires preliminary analytical procedures in the planning stage, such as variance analysis on the income statement. Documentation to evidence the completion of preliminary analytical procedures was generally lacking.
- Design and implementation of internal controls – Whether or not a control reliance strategy is planned, CAS 315.12 - .13 requires that an assessment be made as to whether internal controls are designed effectively and have been implemented. Evidence of the assessment of design and determination of implementation was often missing.

If the auditor intends to rely upon any of the entity's internal control, the standards in CAS 330.8-.17 apply.

- Documentation of substantive procedures (CAS 330.18 –.23) - areas in which the documentation of substantive audit procedures performed were found to be weak included the testing of journal entries, revenues, payroll and other expenses and the subsequent events review.

Other areas of audit documentation where improvements are required include the documentation of substantive analytical procedures (CAS 520) and audit sampling (CAS 530).

- Auditor's Report – while most auditor's reports were in compliance with CAS 700, there were still a number which were deficient in one or more respects.

Documentation in the file must support the date of the auditor's report (CAS 700.41). In particular, the documentation should include evidence that the financial statements (including notes) have been prepared and that those with the recognized authority have asserted they have taken responsibility for those financial statements. Evidence of approval of the financial statements at the appropriate level was often missing.

Further, CAS 560 requires that subsequent event procedures be performed up to the date of the audit report. Documentation of subsequent events procedures up to the required date was often lacking.

Finally, there were numerous instances in which the auditor's report did not adequately describe the financial reporting framework. The reference to "Canadian Generally Accepted Accounting Principles" in the auditor's report is no longer descriptive enough given the various financial reporting frameworks that now exist within Canadian GAAP. It is also important to ensure that engagement letters (CAS 210.6) and management representation letters (CAS 580.10) both refer to the exact financial reporting framework that is being applied. Guidance on the appropriate references for the various financial reporting frameworks can be found in the preceding sections on financial statement presentation under each framework.

### ***Current Projects – Audit Engagements***

Users of audited financial statements are asking auditors to provide more information in their reports about significant matters in the financial statements, as well as the conduct of the audit. In September

2013 the AASB issued an exposure draft, *Reporting on Audited Financial Statements* which was based on proposals made by the IAASB. The AASB is currently deliberating the comments received on the exposure draft and it is anticipated that final material will be approved later this year once the IAASB standard is finalized.

Financial statement disclosures have become more detailed and complex as a result of evolving financial reporting standards. In June 2014, the AASB issued an exposure draft, *Addressing Disclosures in the Audit of Financial Statements* which reflects proposals made by the IAASB. Comments on the exposure draft were due by September 11, 2014.

**For more information on current projects relating to CAS, refer to <http://www.frascanada.ca/canadian-auditing-standards/projects/active/item56134.aspx>**

## **QUALITY CONTROL POLICIES AND PROCEDURES**

The Canadian Standard on Quality Control (CSQC 1) in the *Handbook – Assurance* sets out the requirements for quality control for firms that perform audits and reviews of financial statements, and other assurance engagements.

### **Common Deficiencies – Quality Control**

As in previous years, the main area of concern with respect to the implementation of quality control policies and procedures relates to **the monitoring process** (CSQC 1.48). The monitoring process includes:

- an annual consideration and evaluation of the firm's system of quality control; **and**
- on a cyclical basis, inspection of at least one completed assurance engagement for each engagement partner.

There is general confusion around these two elements of the monitoring process. The annual monitoring must be done each year, the purpose of which is monitoring compliance with quality control policies and procedures to provide an evaluation of:

- Adherence to professional standards and applicable legal and regulatory requirements;
- Whether the system of quality control has been appropriately designed and effectively implemented; and
- Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.

Cyclical monitoring involves the inspection of specific completed engagements and must be done by someone independent of the engagement. The internal inspection cycle and other factors affecting the selection of which engagements should be selected for inspection should be set out in the firm's quality assurance manual.

One or both elements of the required monitoring is not being done in many offices or, if it has been done, documentation of the monitoring and the communication of the results to engagement partners and other appropriate individuals within the firm are not being retained. Where monitoring has been completed, firms should ensure that they retain documentation of the monitoring and the communication of the results to engagement partners and other appropriate individuals within the firm. Practitioners are reminded that the provincial institute inspections are **not** a substitute for the requirement that the firm conduct its own cyclical inspections of completed assurance engagements.

It was also found that firms are not always following the policies set out in their quality assurance manuals with respect to the identification and completion of file quality reviews on engagements where such a review would be required. Practitioners should ensure the criteria for file quality reviews that are included in their quality assurance manual are evaluated for all engagements and that file quality reviews are completed and documented for all engagements where the criteria indicate it should be done (CAS 220.19-21).

## Appendix A List of Resources

### **Handbook – Accounting, Part II - Accounting Standards for Private Enterprises (ASPE)**

#### *Handbook – Accounting, Part II*

CPA Canada website:

Guide to Accounting Standards for Private Enterprises (can be purchased at CPAstore).

Guide on Financial Instruments: <http://www.cica.ca/applying-the-standards/financial-reporting/accounting-standards-for-private-enterprises/item53697.pdf>

ASPE FAQs: <http://www.cica.ca/applying-the-standards/financial-reporting/accounting-standards-for-private-enterprises/faqs/item63069.aspx>

Provincial Professional Development:

- ASPE – A Survey of the Standards
- ASPE – Financial Statement Presentation and Disclosure – Standards to Words
- ASPE – Construction Industry
- ASPE – Income Taxes
- Accounting, Assurance and Professional Practice Update

### **Handbook – Accounting, Part III - Accounting Standards for Not-for-Profit Organizations (ASNFP)**

#### *Handbook – Accounting, Part III*

Financial Reporting and Assurance Standards Canada website:

- Further changes expected as noted in the Statement of Principles:  
<http://www.frascanada.ca/standards-for-not-for-profit-organizations/documents-for-comment/item73780.pdf>.

CPA Canada website:

- Guide to Accounting Standards for Not-for-Profit Organizations in Canada  
[http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69429.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69429.pdf)
- First-time Reporting on Financial Statements adopting Canadian Accounting Standards for Not-for-Profit Organizations (*Handbook Accounting – Part III*) or Public Sector Accounting Standards for Government Not-for-profit Organizations (*Public Sector Accounting Handbook*)  
[http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69430.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69430.pdf)

Provincial Professional Development:

- NFPOs – Financial Statement Presentation and Note Disclosure

- Accounting, Assurance and Professional Practice Update

### **Handbook – Accounting, Part I – International Financial Reporting Standards (IFRS)**

#### *Handbook – Accounting, Part I*

CPA Canada website – includes the following resources:

- The IFRS section of the website contains comprehensive information and learning resources on the transition and application of IFRS, such as articles, webinars and publications that provide guidance on applying new and existing standards, sample illustrative financial statements, sector specific illustrative financial statements and disclosure checklists.  
<http://www.cica.ca/applying-the-standards/financial-reporting/international-financial-reporting-standards/item71221.aspx>
- Numerous industry specific and topic specific IFRS courses, illustrative financial statements and disclosure checklist and guides are also available at:  
<http://www.cica.ca/applying-the-standards/financial-reporting/international-financial-reporting-standards/item71212.aspx>

Provincial Development:

- IFRS: A Survey of the Standards
- IFRS: Financial Statement Presentation & Note Disclosure
- IFRS: An Update 2014
- IFRS: Fair Value Measurement
- IFRS: Oil & Gas Industry

### **Handbook – Public Sector Accounting**

#### *Public Sector Accounting Handbook*

Financial Reporting and Assurance Standards Canada website – the Public Sector section of the website includes the following resources:

- Public Sector Frequently Asked Questions: Accounting Standards for Government Not-for-profit Organizations (GNFPOs)  
<http://www.frascanada.ca/standards-for-public-sector-entities/projects/completed/item45107.pdf>
- Summary comparison of *Public Sector Accounting Handbook* and *Handbook – Accounting*  
<http://www.frascanada.ca/standards-for-public-sector-entities/resources/reference-materials/item50865.pdf>

CPA Canada website – includes the following resources:

- Guide for Accounting Standards for Not-for-profit Organizations in Canada (including GNPO)  
[http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69429.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69429.pdf)
- First-time Reporting on Financial Statements adopting Canadian Accounting Standards for Not-for-profit Organizations (*Handbook Accounting – Part III*) or Public Sector Accounting Standards for Government Not-for-profit Organizations (*Public Sector Accounting Handbook*)  
[http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69430.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69430.pdf)

Provincial Institute Professional Development:

- PSAB 101
- Financial Reporting for Members in the Public Sector (PSAB Update)

## **Review Engagements**

*Handbook – Assurance, Other Canadian Standards*

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.

Assurance and Related Services Guideline AuG-47, *Dating the Review Engagement Report on Financial Statements*

CPA Canada website:

- Guide – Reporting Implications of New Auditing and Accounting Standards (10<sup>th</sup> edition), July 3, 2013 release <http://www.frascanada.ca/canadian-auditing-standards/resources/reference-material/item50999.pdf>
- Guide - First-time reporting on financial statements adopting Canadian Accounting Standards for Not-for-Profit Organizations (*Handbook Accounting Part III*) or Public Sector Accounting Standards for Government Not-for-Profit Organizations (*Public Sector Accounting Handbook*) [http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-accounting-standards/item69430.pdf](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-accounting-standards/item69430.pdf)

Provincial Professional Development:

- Review and Compilation Engagements – The Standards
- Accounting, Assurance and Professional Practice Update

## **Compilation Engagements**

*Handbook – Assurance, Other Canadian Standards*

Provincial Professional Development:

- Review and Compilation Engagements – The Standards

## **Audit Engagements**

*Handbook – Assurance*

Financial Reporting and Assurance Standards Canada website:

- The resources section (<http://www.frascanada.ca/canadian-auditing-standards/resources/index.aspx>) includes basis for conclusions documents, reference material (articles, bulletins and practice notes) and archived webinars and webcasts.

CPA Canada website:

- The **Focus on Practice Areas** section highlights resources available including, articles, publications, webinars, implementation guidance and tools, etc. [http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-\(smp\)/implementing-the-assurance-standards-tax/index.aspx](http://www.cica.ca/focus-on-practice-areas/small-and-medium-practices-(smp)/implementing-the-assurance-standards-tax/index.aspx)

Provincial Professional Development:

- Accounting, Assurance and Professional Practice Update
- Audit of a Small Entity
- Auditing Refresher (ONLINE)
- Efficient and Effective Review of Working Papers – Audit, Review and Compilation Engagements
- Fraud Happens – What to do When You Suspect Fraud
- Risk and Control for Medium and Larger Entities

- The Art of Making Good Inquiries

**Quality Control Policies and Procedures**

*Handbook – Assurance*

*Quality Assurance Manual (QAM)*

CPA Canada websites:

- Webinars - <http://www.cica.ca/career-and-professional-development/webinars/item11019.aspx>
  - 2013 QAM Update and How to Apply Quality Control Standards in a Cost-effective Way;
  - Focus on Quality Assurance Manual - Update #4; and

Knotia Website:

- Free QAM #4 PowerPoint Presentation – Effective implementation of your firm’s quality control system at [www.knotia.ca/updates/cpem](http://www.knotia.ca/updates/cpem).

Provincial Professional Development:

- Quality Control – Maintaining and Monitoring