



Practice Advice

FOR CHARTERED ACCOUNTANTS PROVIDING REVIEW AND COMPILATION SERVICES

November 2007

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This CICA publication is an “other auditing and assurance publication” under the hierarchy established in *Authority of Auditing and Assurance Standards and Other Guidance*, paragraph 5021.02(d). It has not been adopted, endorsed, approved, disapproved or otherwise acted upon by the Auditing and Assurance Standards Board (AASB), any CICA board or committee, the governing body or membership of the CICA, or any Provincial Institute/Ordre. This publication has been prepared by the CICA Auditing and Assurance Standards staff to be included in the list of publications in Appendix B of Section 5021; consequently, it may be presumed to be appropriate. This publication may help practitioners understand and apply Recommendations and guidance issued by the AASB. Before applying the guidance in this publication, a practitioner should be satisfied that, in his or her professional judgment, it is relevant to the circumstances of the assurance engagement.

Practice Advice is written primarily for CAs who provide review and compilation services, but is not restricted to these CAs¹, and is intended to give helpful suggestions on performance and reporting issues. The content of this bulletin is based on recommendations from practice advisors and findings from practice inspectors of the Provincial Institutes/Ordre, enquiries from members, and suggestions of staff and volunteers working on Standards Group projects. This bulletin does not include information on all projects undertaken during the year by the AASB. It is intended to highlight projects of particular relevance to practitioners. For a complete listing and discussion of projects undertaken, practitioners should refer to the AASB website at www.aasb.ca.

Compilation Engagements

Revisions to Section 9200, *Compilation Engagements*, became effective July 1, 2007. These included:

- changes to the wording of the Notice to Reader; and
- a change in the scope of Section 9200 such that it no longer applies to financial information prepared solely for inclusion in income tax returns.

The AASB made changes to the wording of the Notice to Reader in response to concerns expressed by practitioners that this wording did not accurately reflect what is required of practitioners on such engagements, and the nature and

extent of the work done on compilations engagements. Practitioners agreed that the Notice to Reader should make it clear that the practitioner had not performed an audit or review, but found the required wording “not otherwise attempted to verify the accuracy or completeness of the information” to be problematic. They noted that while the work done on such engagements is limited, the practitioner, at a minimum, needs to perform sufficient work to avoid being associated with misleading information, as required by the Rules of Professional Conduct of their respective Provincial Institute/Ordre. The problematic phrase was therefore deleted from the wording of the Notice to Reader.

¹ Many practitioners who provide review and compilation services also perform audits of small entities; therefore, some reference to audit material is included in this publication.



Some practitioners have suggested the Notice to Reader include a detailed list of the procedures actually performed. The AASB felt that this would not be appropriate, since it could result in inconsistency in reporting that would likely lead to user confusion. Such an approach might also cause users to believe that the work performed was meant to provide some level of assurance, which is not the intention.

The change to the scope of Section 9200 was made in response to an apparent inconsistency in practice. Some practitioners, under the belief that the Section requires a Notice to Reader to be attached to schedules included in corporate and personal income tax filings, were attaching a Notice to Reader to such schedules. Other practitioners believed that

this was not required, and therefore were not attaching a Notice to Reader.

Currently, a large number of compilation engagements are undertaken to prepare schedules (i.e., not a separate set of financial statements that could be given to a third party) to be included in corporate and personal tax filings only. The AASB inserted the phrase “does not purport to convey the financial position and the results of operations of the enterprise” in paragraph 9200.03 of the revised Section, in order to clarify what tax information would be included in the scope of the Section. The intention is to ensure that a user does not use an extract from a tax return to draw an inappropriate conclusion about financial information. The nature of the information would usually be obvious by reason of the government form on which

it is presented. In the case of individuals and smaller entities, it may often be the case that separate financial statements are not needed (for example, for banks or third-party users). In these cases, separate financial statements need not be prepared — the appropriate financial information may be included only in the tax filing.

The Ontario Institute of Chartered Accountants has been working with tax software preparers to make appropriate changes to software to accommodate the new Notice to Reader wording.

It remains the responsibility of the practitioner to be aware of the requirements in Section 5020, *Association*, and to ensure that he or she is appropriately communicating his or her association with the financial information.

Professional Engagement Manual and Other Publications

The Professional Engagement Manual (PEM) underwent a significant update early in 2006. The entire Audit section of the PEM was rewritten to reflect the requirements of the Audit Risk standards, which were approved by the AASB in the summer of 2005 and were effective for engagements relevant to financial periods beginning on or after January 1, 2006. Further changes to the Audit section were made in mid 2007, including changes to the review and audit forms, which were made to better explain how to use certain of the forms and to improve the general usability of the PEM. The Review and Compilation sections of the PEM were revised in late 2006.

A new chapter containing guidance for audits of not-for-profit organizations is currently being written for inclusion in the PEM. This new material is expected to be available in late 2007 or early 2008.

Revisions are also being made to the Quality Assurance Manual (QAM), including additional material and guidance on monitoring. These revisions are expected to be completed in late 2007 or early 2008.

The PEM and the QAM are written by Stuart Hartley, FCA, CA•IT, President of FocusROI, a specialized consulting firm, and are published by CICA Member Services. For more information on the PEM or the QAM, please contact Brian Loney, CICA Director, Publishing, at brian.loney@cica.ca or (416) 204-3235.

Audit Implications Of Cheque Imaging

The Canadian Payments Association (CPA) is leading an industry-wide initiative to adopt a new clearing process based on cheque images that will replace the traditional cancelled paper cheques. Cheque imaging involves creating a digital representation of the front and back of the cancelled cheque.

Earlier this year, the CPA initiated consultations with its member financial institutions on the Draft Rule, given that some proposed amendments may have significant implications to their “backroom” operations. In recognition of the fact that some provisions may have implications for some external stakeholders, the CPA invited interested stakeholders to comment on the Draft Rule. For complete details, the full text of the Draft Rule is also available on their website. The CPA expects that implementation of the new clearing process will begin in the latter part of 2008.

An article on audit implications of this initiative was included in the October 2006 issue of Practice Advice.

For further information on cheque imaging and cheque specifications, visit the Canadian Payments Association website at www.cdnpay.ca.

Adopting International Standards on Auditing

The Auditing and Assurance Standards Board (AASB) is adopting International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). After the adoption of the ISAs, Handbook Sections dealing with the audit of financial statements will be called “Canadian Auditing Standards” (CASs). The discussion paper “Adopting International Standards on Auditing (ISAs)” provides information about the transition to CASs and explains changes to the structure of the future Handbook, which will include changes to the structure of sections outside of auditing standards. It can be found on the AASB’s website at www.aasb.ca.

Practitioners should note that although the current focus is on adopting auditing standards, conforming changes may be required to other Sections and to Assurance and Related Services Guidelines in the CICA Handbook – Assurance. For example, Section 8200, *Public Accountant’s Review of Financial Statements*, contains material on agreeing the terms of the engagement, obtaining written representations from management, communicating with those charged with governance and reporting matters. In order to avoid conflict with requirements and guidance in CASs, changes may be required to this Section. Any changes that are considered significant by the AASB will be exposed for comment. Non-significant changes will not be exposed, in accordance with the AASB’s due process. The effective date of any change to the Handbook will be no earlier than the effective date for CASs.

A number of Exposure Drafts of proposed Canadian Auditing Standards have been issued over the last year, with the expectation that additional exposure drafts will be issued in the autumn and winter of 2007. Practitioners are invited to provide comments to the AASB and, if they so wish, directly to the IAASB, on the Exposure Drafts of redrafted ISAs. A copy of the AASB’s current project schedule can be found on the AASB’s website.

Canadian Auditing Standards that have been approved by the AASB are now being included in a separate section of the CICA Standards and Guidance Collection, available on the internet at www.knotia.ca.

Although these standards are not yet effective, the AASB is making them available to assist auditors with their adoption and implementation. Currently, four standards are available:

- CAS 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*
- CAS 300, *Planning an Audit of Financial Statements*
- CAS 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*
- CAS 330, *The Auditor’s Responses to Assessed Risks*

As additional final CASs are approved by the AASB, they will be added to the CICA Standards and Guidance Collection.

Practice Inspection Issues

Practice Inspection departments of the Provincial Institutes/Ordre have reported that the results of inspections conducted during the 2006-2007 fiscal year were generally favourable. However, deficiencies are still being found in the conduct of audits and reviews. Of particular concern is the implementation of the Audit Risk standards Practice Inspectors have indicated that some practitioners have not implemented these standards properly and have not met all the requirements. They have indicated that perhaps more effective implementation guidance is needed to help practitioners deal with these standards.

A further area of concern is in the documentation of the understanding of the entity's business in both audits and review engagements. In particular, obtaining an appropriate understanding in the areas of management responsibilities and procedures to address the risk of management override of controls were lacking. Practice inspectors also noted that procedures to detect fraud and advising the client of known or suspected fraud could be improved.

Accounting Standards Board Activities

The Accounting Standards Board (AcSB) has issued an Invitation to Comment entitled "Financial Reporting by Private Enterprises" to invite feedback on the future of financial reporting by private enterprises. In particular, it discusses how accounting standards might deal with the special needs of this sector. The Invitation to Comment is accompanied by a discussion paper that describes those issues in more detail and summarizes the findings of research the AcSB has conducted for this project. The Invitation to Comment and Discussion Paper has a comment deadline of October 31, 2007 and can be found on the AcSB's website at: www.acsbcanda.org.

Auditing and Assurance Standards Staff

Director Gregory P. Shields (416) 204-3287 greg.shields@cica.ca	
Principals Jacqui Bridel-Kuypers (416) 204-3445 jacqui.bridel@cica.ca	Chi Ho Ng (416) 204-3443 chiho.ng@cica.ca
Mary Olynik (416) 204-3312 mary.olynik@cica.ca	Eric Turner (416) 204-3240 eric.turner@cica.ca

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COMMENTS

Practice Advice welcomes all comments, letters and suggestions for future issues. Please send them to:

Jacqui Bridel-Kuypers, CA
Principal, Auditing and Assurance Standards

The Canadian Institute of Chartered Accountants
277 Wellington St. W.
Toronto ON M5V 3H2
E-mail: jacqui.bridel@cica.ca
Tel: (416) 204-3445 • Fax: (416) 204-3408