The following contains boxed material from the forthcoming publication:

**Auditing: The Art and Science of Assurance Engagements**

**Canadian Eleventh Edition**

Professor Alvin A. Arens, Michigan State University  
Randal J. Elder, Syracuse University  
Mark S. Beasley, North Carolina State University  
Ingrid B. Splettstoesser-Hogeterp, York University

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New Standards 2-1
Canada has Embraced CASs

Canadian accounting and auditing standards are moving towards conformity with international standards because of an increasingly global business environment and a desire for efficiency in the standard-setting process. The CICA website has documents explaining how the ISAs (International Standards on Auditing) in effect as of December 15, 2009, have been adopted as Canadian Auditing Standards, CASs, and provides a reconciliation document between previous CICA Handbook section numbers and the new CASs. Canadian standards are being renumbered in conformity with the ISAs. These CASs are effective for the audits of financial statements for periods that end after December 14, 2010. This means that organizations with a December 2010 year-end will have their audits conducted using the new CASs.

The CICA website (www.cica.ca) has a menu item entitled "Canadian Standards in Transition" devoted to the transition to international standards. It contains the above-noted reconciliation document as well as current information about the conversion, reasons for the change, and frequently asked questions (FAQs) about ISAs and CASs. Similar information is available from the CGA Canada website’s assurance section, https://www.cga-pdnet.org/en-ca/Pages/default.aspx.

The ISAs already adopted focus on standards for the audit of financial statements. Some current Canadian standards combine guidance for the audit of financial statements and other types of assurance engagements. This means that the existing Canadian auditing standards will likely be rewritten to provide separate guidance for financial statement audits and other engagements. In the meanwhile, we will be using both CICA Handbook section numbers and CAS numbers.

The CICA uses the terms CICA Handbook—Assurance or Assurance Handbook to refer to assurance standards. CASs have been placed in Part I of the Assurance Handbook. Part II contains the remaining sections, called Other Canadian Standards—Engagement Standards (or OCSs). For convenience, we will use CICA Handbook when talking about any of the CICA Standards.

Canadian auditing standards are issued by the Auditing and Assurance Standards Board (AASB), which is composed of volunteers appointed by the Auditing and Assurance Standards Oversight Board (AASOB) and from the business community.

The conversion to CASs brings with it changes in terminology and a reorganization of Canadian standards, expected to be completed in the coming years. Each CAS is organized into the following sections: Introduction, Objective, Definitions, Requirements, Application, and Other Explanatory Material.
New Standards 2-2
Standards from the PCOAB in the U.S.

The Sarbanes-Oxley Act of 2002, signed into law on July 30, 2002, is considered by many observers to be the most important legislation affecting the American auditing profession since the 1933 and 1934 Securities Acts. The Sarbanes-Oxley Act was triggered by the bankruptcies and alleged audit failures involving Enron and WorldCom. The provisions of the Act apply to publicly held companies and their audit firms.

This Act established the Public Company Accounting Oversight Board (PCAOB), appointed and overseen by the Securities and Exchange Commission (SEC). The PCAOB provides oversight for auditors of public companies, including establishing auditing, ethics, independence, and quality control standards for public company audits and performing inspections of the quality controls at audit firms performing those audits. These activities were formerly the responsibility of the AICPA. The U.S. Auditing Standards Board (ASB) is still responsible for issuing pronouncements on auditing matters for all entities other than public companies. Although the PCAOB is responsible for setting standards, existing auditing standards remain in effect for public companies until the PCAOB develops specific guidance.

The PCAOB regularly issues new standards that have an impact on SEC registrants, including Canadian companies which file on the SEC. The most recent standards (effective with 2008 year-ends) concern internal control reporting and pre-approval of non-audit services by the audit committee.

New Standards 2-3
Timing and Detail Changes in Quality Control Processes

CSQC-1 (Canadian standard on quality control, which replaces GSF-QC) and CAS 220 (Quality control for an audit of financial statements, which replaces CICA Handbook Section 5030), the Canadian versions of the equivalent international standards, apply to assurance engagements for financial statements. GSF-QC CICA Handbook quality control standards also apply to other types of assurance engagements. Keep an eye out for forthcoming CICA Handbook sections that will clarify requirements for non-financial statement engagements. Changes in CSQC-1 include the timing of quality control reviews (to occur before the audit opinion is issued), and a requirement for more specific documentation about independence, consultation, and assessment of evidence. The changes also codify monitoring of quality control procedures and procedures for dealing with complaints.
### New Standards 3-1
**CAS 220 and CSQC-1**

New Canadian audit standards CAS 220, Quality control for an audit of financial statements, and CSQC-1, Quality control for firms that perform audits and reviews of financial statements and other assurance engagements have additional requirements. The engagement partner is expected to monitor engagements for compliance with firm policies and procedures, checking for procedures to enable compliance and looking for potential non-compliance. The firm should also have training, communicate policies to employees, check for non-compliance and provide remedial action when non-compliance is discovered.

### New Standards 3-2
**Broadening "Listed Entity"**

The rules of conduct of provincial professional organizations in Canada currently define a listed entity with a size test—i.e., there must be a market capitalization greater than $10 million. However, proposed Canadian standards would shift to the definition used in CAS 220: simply an organization that has capital listed on a stock exchange (or that is marketed by such a stock exchange). This likely means that all public company financial statement audits would have a high level of restrictions on the additional services that can be provided by PAs (see Table 3-6). Even though this new definition is included in the CAS, each accounting association would need to modify its own rules of conduct to bring them in alignment with the new CAS.
New Standards 4-1
Effects of Changed Rules for Civil Liability

Effective December 31, 2005, the Ontario government enacted legislation as part of its Investor Confidence Initiative (comprising Bill 198, 2002; Bill 145, 2004; and Part XXIII.1 Ontario Securities Act) that both increases legal liability and reduces the amounts that auditors could be liable for. The legislation provides that both initial and secondary investors could sue (with court permission) where they relied upon information that was misrepresented (such as incorrect financial statements). Changes that would affect public accountants are proportional liability (they could be sued for only the portion for which they are judged to be at fault) and a cap on liability based upon a formula that is the greater of $1 million or the earnings from the client (and its affiliates) for the 12 months preceding the misrepresentation. These changes mean that more parties could sue the auditor, but that the amount for which he or she would be liable would be less. The cap on liability does not apply if the defendant knew about the misrepresentation or failed to make known the misrepresentation on a timely basis.

An important aspect of this legislation is that the plaintiff does not need to prove that he or she relied upon the false information, but only that there was a loss. Lawsuits could use these regulations, and similar legislation in other provinces, to ‘fast track’ their claims.


Chapter 5 – New Standards boxes

New Standards 5-1
Multiple Financial Frameworks!

CAS 200, Overall objectives of the independent auditor, and the conduct of an audit in accordance with Canadian standards on auditing, par. 3, talks about an applicable financial reporting framework rather than Canadian GAAP. Paragraph 5 adds that the reasonable assurance about the absence of material misstatement needs to consider both fraud and error. Having an acceptable financial reporting framework by management is considered to be a precondition for the auditor to accept an audit engagement (described further in CAS 210, par. A2-3.)
### New Standards 6-1

**Evidence Needs to be Complete, Accurate, Precise and Consistent**

| Whom would you trust more, a used car salesman, a banker, or your brother? These are the kinds of intangible judgments the auditor needs to make when assessing evidence. | The same paragraph also asks the auditor to consider whether the audit evidence is precise enough. This standard is asking about the level of detail. For example, if you confirmed information about debt, you would need to include information about interest rates. |
| CAS 500, Audit evidence, asks auditors to specifically consider how useful the evidence is that they receive from management and others. | Paragraph 11 of CAS 500 raises the issue of consistency. If management has a different assessment of the outcome of a lawsuit than staff involved in the process or the lawyer, then the evidence will be difficult to assess. |
| For example, paragraph 9 of CAS 500 asks the auditor to obtain evidence about the accuracy and completeness of information. The auditor might consider the competence of employees or the preparer of the information, or the quality of information systems in that assessment. | |

### New Standards 6-2

**Non-Required Confirmations**

| ISA 505, External confirmations, does not require the use of confirmations, but rather provides additional guidance for the auditor to follow when confirmations are used. | ISA 505 also requires the auditor to conduct alternative procedures where there are no responses to confirmations, where management refuses permission to send a confirmation, or where results of evidence received are contradictory. |
| For example, negative confirmations are discouraged (negative confirmations ask respondents to reply only in the event of differences). | |
Chapter 8 – New Standards boxes

New Standards 8-1
Do More Testing of Related-Party Transactions!

The CICA standards in force up to the end of 2009 for related parties were in Section 6010, Audit of related-party transactions. CAS 550 requires many of the same actions. The auditor is required to use inquiry of management to examine whether the related parties have been identified, disclosed, and properly measured. It is up to the auditor to determine the extent that alertness or testing of such transactions is required, based upon assessed risks. Finally, the auditor is to have management confirm, in writing, that it has provided complete information about the related-party transactions—if any others are found, the auditor is to inform the audit committee or equivalent.

CAS 550, Related parties, requires the auditor to complete more structured work with respect to related-party transactions.

Chapter 10 – New Standards boxes

New Standards 10-1
Standard and Poor’s (S&P's) ERM Review?

As if there were not enough specific business practices forced upon an organization, there is now the potential for an ERM review by Standard and Poor’s, a rating agency. An organization’s ERM capabilities in five categories (culture, controls, emerging issues, risk and capital modelling, and strategic risk management) will be summarized to provide an overall classification ranging from Excellent to Weak. It is possible that low ratings could result in an increase in an organization’s borrowing costs.

What can an organization do to prepare for a review by its auditors or by S&P? It can adopt a recognized ERM framework, document its governance processes, and document how it actually conducts its enterprise risk management processes.