



Assurance Standards

JULY 2011

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES (ASPE) – ARE YOU READY?

After all the talk and build-up over the past few years, the deadline to adopt ASPE has finally arrived. All non-public entities that are not adopting IFRS are required to adopt ASPE for their fiscal years beginning on or after January 1, 2011. While there are many similarities between ASPE and the pre-changeover accounting standards, there are some differences and first-time adoption choices that need to be considered. These issues should be addressed prior to the end of the fiscal year so as to avoid any surprises in financial reporting at the year-end.

In addition, the new standards require entities to restate the prior year financial statements in accordance with ASPE. This raises an issue with regards to the audit report; the prior year financial statements were originally audited based on pre-changeover accounting standards. If the auditor does not perform any additional audit procedures on the restated comparative numbers, then this needs to be disclosed. There are two approaches available to entities and their auditors:

1. The comparative statements can be re-audited using the ASPE standards. This will allow the auditor to issue an unmodified report on both the current year and prior year ASPE financial statements but there could be extra costs involved as the auditor may need to perform additional work.
2. Prior year information will be presented as corresponding information which is unaudited and this will be explained in the audit report. The report can also include a sentence stating that the prior year comparatives under the pre-changeover accounting standards were issued with an unmodified audit opinion. This is potentially a more cost-effective alternative but entities will need to determine if the users of their financial statements will accept this option.

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Uniting the Canadian Accounting Profession

The leaders of the Chartered Accountants of Canada (CA) and the Certified Management Accountants of Canada (CMA) have recently released a position paper on a proposed merger of the CA and CMA professions in Canada. The CA and CMA accounting bodies feel that the recent trend towards adopting international accounting and auditing standards reflects the more global nature of businesses today and Canada's accounting professionals must be unified at the international standard-setting level. Accounting bodies in other countries are now creating international alliances and recruiting members from outside their borders. The accounting profession in the United Kingdom has been operating similar to Canada with a complex, fragmented series of organizations and has recently been legislated to restructure itself with the ultimatum that the government is ready to impose a solution in the absence of progress by the accounting profession itself. The Canadian government has not indicated that they would take these extreme measures but there have been suggestions that the accounting profession will come under increased government scrutiny.

The merger of CAs and CMAs has many barriers that must be overcome and success is dependant on each designation retaining its distinct value. The model being considered would have current members retain the designations that they earned and transitioning to a single designation over a 10 year period. The title Chartered Professional Accountant (CPA) is the proposed new all-encompassing designation. The CPA brand is well known internationally and the use of the term "Professional" rather than "Public" is a more accurate description of the roles filled by the members.

The position paper is intended to be a starting point of initiating discussion among members within the accounting profession. Each of the provincial Institutes/Ordre is in the process of consulting with their members and stakeholders to gain perspective on their views.

The position paper as well as discussion forums can be found here:

<http://cpacanada.ca/>

Can We Expect Changes to the Standards for Review Engagements?

With all the changes to accounting and audit standards, it is no surprise that on the international level, there are now projects in process which will change the standards for review engagements. In January 2011, The International Auditing and Assurance Standards (IAASB) released a revised exposure draft (ISRE 2400) -

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Proposed International Standard on Review Engagements. In Canada, the Auditing and Assurance Standards Board (AASB) issued an invitation to comment on the IAASB exposure draft in order to obtain information from Canadian stakeholders to assist in determining whether or not to adopt ISRE 2400 (Revised) in Canada. It has become clear that the current Canadian review standards have become out of date and will be revised in the near future. The AASB is in the process of deciding if Canada should adopt the IAASB standards or if a new set of Canadian standards should be developed. The most significant differences between ISRE 2400 (Revised) and current Canadian review standards are:

- **Level of assurance** – ISRE 2400 (Revised) is drafted based on the premise that a review engagement will provide “limited assurance.” This is a very different concept than the current Canadian standard of “plausibility,” which appears to imply a higher level of assurance and is a term that is well understood in Canada’s business community.
- **Materiality** - The current Canadian standards do not include any recommendations that address materiality; however, in practice most practitioners do calculate materiality on review engagements. ISRE 2400 (Revised) requires a calculation of materiality.
- **Concept of “Risk”** – The current Canadian standards do not require a consideration of the risk of material misstatements. However, in section 5025 of the CICA Handbook, the standard states that in planning assurance engagements (including reviews), engagement risk must be considered. This inconsistency has existed for many years and has resulted in varied standards for reviews among different practitioners. ISRE 2400 (Revised) would eliminate this inconsistency. The term “risk” is intentionally not explicitly used in order to differentiate reviews from audits. The terminology adopted is “areas in the financial statements where material misstatements are likely to arise.” A practitioner is required to design procedures to address these areas.
- **Practitioner’s report** – ISRE 2400 (Revised) includes specific requirements for the content and structure of the review report. The required paragraphs are very similar to those required for an audit report under the new Canadian Auditing Standards. The title of the report is “Independent Practitioner’s Review Report.” The current review standards refer to the title of the report as “Review Engagement Report.”

The AASB Invitation to Comment can be found here:

<http://www.aasbcanada.ca/documents-for-comment/item47907.pdf>

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