



Deloitte's digest  
An overview of  
standard-setting activities



April 30, 2012

At a time when it has become a difficult task to keep up to date with the recent developments in standard-setting activities, the Deloitte Digest presents a useful single source of reference for current financial reporting developments.

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# Summary by standard

From time to time, standard-setters and regulators issue new rules and standards that affect your financial reporting. This document briefly describes these pronouncements and other regulatory and professional developments and indicates their effective date, transition application and entities affected.

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# Final standards



## AASB Staff Bulletin – Auditing Considerations in an Uncertain Economic Environment

**Effective date:** Immediately

**Standard:** N/A – AASB Staff Bulletin

**Transitional provisions:** N/A

**Published by:** AASB Staff

**Last updated:** March 2012

**Applicable to:** All auditors

### Recent activities

On March 13, 2012, the AASB staff issued an audit bulletin that highlights matters for auditors to consider in light of the current uncertain economic environment.

### In summary

There is a possibility that the Canadian economy may weaken in the near term. This has been noted in various sources, including the economic forecast for Canada issued by the Organization for Economic Co-operation and Development. Heightened risks from renewed financial-market turmoil linked to the European sovereign debt crisis and high levels of household indebtedness are eroding consumer confidence.

In January 2009, the AASB staff issued a Risk Alert, “*Auditing Considerations in the Current Economic Environment*,” to highlight matters for auditors to consider when responding to higher risks of material misstatements of financial statements of entities significantly affected by the 2007/2008 downturn in the Canadian economy. This Bulletin updates the January 2009 Risk Alert to make reference to the Canadian Auditing Standards (CASs), as well as the uncertainties in the current economic environment.

The degree to which a particular entity, and its financial statements, will be affected by an uncertain economic environment will depend on various matters such as the following:

- The industry in which the entity operates and the likely severity of an economic downturn on the demand for its products or services. For example, some retail companies are suffering declines in sales because of significant cut-backs in consumer discretionary spending.
- An entity’s financing or credit arrangements, including its ability to continue to obtain financing from financial institutions and other creditors (including suppliers). For example, some entities that have traditionally been able to obtain financing at reasonable rates with little difficulty may find that in a downturn they may face a considerable tightening in the lending practices of many financial institutions. Also, companies may no longer be able to meet the requirements of debt covenants agreed to when the economic outlook was more positive.
- The extent to which an entity has invested in financial instruments, the market for which has been hit hard by a severe economic downturn. For example, an entity may have significant holdings of government bonds from weaker economies.

To assist auditors in considering how to deal with the greater risks associated with an uncertain economic environment, this Bulletin discusses the following matters:

- continuance of the client relationship;
- communications with those charged with governance;

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- going concern considerations;
  - planning the overall audit strategy;
  - understanding of the entity and its environment, and assessing and responding to the risks of material misstatement;
  - auditing accounting estimates including fair value measurements; and
  - audit considerations for selected financial reporting areas.

#### **Available resources and links**

- [AASB Staff Bulletin](#)

## AASB Amendments to CAS 610 – Using the Work of Internal Auditors

UPDATED

**Effective date: Years ending on or after December 15, 2013**

**Standard:** Amendments to CAS 610, *Using the Work of Internal Auditors*, and related changes to certain paragraphs of CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

**Transitional provisions:** Effective for years ending on or after December 15, 2013

**Published by:** AASB

**Last updated:** March 2012

**Applicable to:** All auditors

### Recent activities

On March 22, 2012, the IAASB issued a Basis for Conclusions document in respect of the amendments to IAS 610 and IAS 315.

At their meeting on March 5-6, 2012, the AASB approved changes to CAS 610, *Using the Work of Internal Auditors*, and related changes to certain paragraphs of CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*. The changes are consistent with changes recently approved by the IAASB with respect to IAS 610 and IAS 315. Further changes that deal with the auditor's use of direct assistance by internal auditors will not become effective until related revisions that are being considered by the International Ethics Standards Board for Accountants are finalized.

### In summary

The amendments to CAS 610 are intended to establish a strengthened judgment-based framework for the external auditor in deciding whether and, if so, to what extent to use the work of the internal audit function, and include the following:

- Determining Whether the Work of the Internal Audit Function Can Be Used

The amendments require that the external auditor's initial assessment of whether the work of the internal audit function can be used for purposes of the audit should be based on an evaluation of the internal audit function's degree of objectivity (as supported by its organizational status, and relevant policies and procedures), level of competence and application of a systematic and disciplined approach, including quality control.

The related requirements and guidance on factors to consider in making this evaluation have been updated to reflect developments in internal audit practice.

- Nature of the External Auditor's Assessment

The amendments recognize the fact that the internal audit function applies a systematic and disciplined approach is important. It is this characteristic that differentiates the work of the internal audit function from other internal controls and thereby provides support for the premise underlying the revisions to CAS 610. Specifically, the external auditor's objective is to obtain sufficient evidence about the internal audit function as a whole, rather than 'test' each individual piece of work performed by the function as is required by ISA 330 in relation to other controls.

- Clearer Boundaries on the Use of the Work of the Internal Audit Function

In addition, the amendments establish clearer boundaries for the circumstances when the use of any of

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the work of the internal audit function by the external auditor would not be appropriate. Specifically, where either the degree of objectivity or level of competence of the internal audit function is assessed as low, the work of the internal audit function should not be used for purposes of the audit. Applying this principle, a high degree of objectivity cannot offset a low level of competence and, similarly, a high level of competence cannot offset a low degree of objectivity.

- Mutual Understanding with Those Charged with Governance

CAS 610, as amended, includes a requirement that the external auditor reach a mutual understanding with those charged with governance that the proposed nature and extent of use would not be excessive in the circumstances of the engagement.

- Overall Purpose of the Changes

The amendments (a) provide a framework for determining the nature and extent of the work of the internal audit function that can justifiably be used in the external audit; and (b) set out clear boundaries to guard against use of the work of the internal audit function in circumstances in which it would be inappropriate.

#### **Available resources and links**

- [CAS 610, Using the Work of Internal Auditors \(Revised March 2012\)](#)
- [CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment \(Revised March 2012\)](#)
- [IASSB IAS 610 \(revised\)](#)
- [IAASB Basis for Conclusions document](#)
- [IAASB Meeting Summary – December 2011](#)
- [AASB's exposure-draft](#)
- [AASB project summary](#)

## AASB Staff Bulletin – Requirements Related to the Dating of Auditor’s Reports

**Effective date:** Immediately

**Standard:** N/A – AASB Staff Bulletin

**Transitional provisions:** Effective immediately

**Published by:** AASB Staff

**Last updated:** February 2012

**Applicable to:** All auditors

### Recent activities

On February 9, 2012, the AASB Staff issued a bulletin that explains the interrelationship of various requirements in Canadian Auditing Standards regarding the dating of auditor’s reports.

### In summary

This *Auditing and Assurance Bulletin* was issued by the AASB Staff in response to certain matters identified by practice inspectors and questions received by provincial practice advisors on the interrelationship of various requirements in Canadian Auditing Standards (CASs) related to the dating of auditor’s reports.

#### CAS 700

CAS 700, *Forming an Opinion and Reporting on Financial Statements*, requires that the auditor’s report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base his or her opinion on the financial statements. *The audit cannot be complete before the financial statement preparation process is complete.* Certain other dating requirements in CASs are all driven, to some extent, by this same fundamental principle, as set out in CAS 700. These include dating requirements related to management representations, subsequent events, communications with management, communications with those charged with governance, engagement quality control review, and file completion. These requirements are discussed briefly below.

#### Written representations

CAS 580, *Written Representations*, states that written representations are necessary information that the auditor requires in connection with the audit of the entity’s financial statements. Accordingly, written representations are audit evidence (paragraph 3 of CAS 580). *As a result, the auditor’s opinion cannot be expressed, and the auditor’s report cannot be dated, before the date of the written representations.* Also, because the auditor is concerned with events occurring up to the date of the auditor’s report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor’s report on the financial statement (paragraphs 14 and A15 of CAS 580).

#### Subsequent events

The auditor is also required to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework (paragraph 4a of CAS 560, *Subsequent Events*). Depending on the risk assessment, the audit procedures related to subsequent events may involve the review or testing of accounting records or transactions occurring between the date of the financial statements and the date of the auditor’s report (paragraph A6 of CAS 560). *This work*

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*needs to be completed prior to the date of the auditor's report.*

### **Communications with management**

Timely communication with management is essential to obtaining sufficient appropriate audit evidence. CAS 450, *Evaluation of Misstatements Identified during the Audit*, requires the auditor to communicate, on a timely basis, all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor requests management to correct those misstatements. This timely communication of misstatements to the appropriate level of management enables management to evaluate whether the items are misstatements, inform the auditor if it disagrees, and take action as necessary. *Since management prepares the financial statements, the adjustments would have to be made before the financial statements are approved by the Board of Directors and before the date of the auditor's report.*

### **Communications with those charged with governance**

*Timely communications with those charged with governance are also an integral part of any audit.* CAS 260, *Communications with Those Charged with Governance*, and many other CASs (as indicated in the Appendix to CAS 260) contain requirements to communicate specific matters to those charged with governance. CAS 260 requires that communication be made on a timely basis but does not specify required dates. In determining what constitutes a timely communication, the auditor may consider, for example, that those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events.

### **Quality control for an audit of financial statements**

When some audits are near completion, an engagement quality control review is performed. For example, such a review is required for an audit of the financial statement of a listed entity. As a policy, a public accounting firm may make these reviews mandatory for other audit engagements. An engagement quality control review assists the auditor in determining whether sufficient appropriate evidence has been obtained. *Paragraph 19 of CAS 220, Quality Control for an Audit of Financial Statements, requires the engagement partner to not date the auditor's report until the completion of the engagement quality control review.*

### **File completion**

When the audit has been completed, an assembled, complete audit file supports the auditor's conclusion that sufficient appropriate audit evidence has been obtained. CAS 230, *Audit Documentation*, requires that the auditor assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. *An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report (paragraphs 14 and A21 of CAS 230).*

### **Available resources and links**

- [AASB Bulletin \(February 2012\)](#)

## AASB Staff Bulletin – Enhancing Professional Scepticism

**Effective date:** Immediately

**Standard:** N/A – AASB Staff Bulletin

**Transitional provisions:** Effective immediately

**Published by:** AASB Staff

**Last updated:** February 2012

**Applicable to:** All auditors

### Recent activities

On February 9, 2012, the AASB Staff issued a bulletin which provides examples of guidance in Canadian Auditing Standards that help the auditor to properly apply professional scepticism.

### In summary

This *Auditing and Assurance Bulletin* was issued in response to certain matters identified by practice inspectors and questions received by provincial practice advisors. In particular, this Bulletin addresses how certain specific audit procedures required by Canadian Auditing Standards (CASs) are intended to enhance professional scepticism.

#### Applying professional scepticism in accordance with CASs

Paragraph A19 of CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, calls for the auditor to plan and perform the audit with professional scepticism in order to reduce the risks of:

- overlooking unusual circumstances;
- over generalizing when drawing conclusions from audit observations; and
- using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof.

CASs define professional scepticism as an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence (paragraph 13(l) of CAS 200). For example, the auditor is alert to:

- audit evidence that contradicts other audit evidence obtained;
- information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence;
- conditions that may indicate possible fraud;
- intentional or unintentional management bias;
- possible management override of internal controls; and
- other circumstances or changes in circumstances that suggest the need for audit procedures in addition to those initially planned.

When the auditor becomes aware of a condition that appears problematic, the auditor responds by investigating further and determining what modifications or additions to audit procedures are necessary to resolve the matter.

Some practice inspectors have noted instances where it appears that auditors have not maintained an attitude of professional scepticism, nor provided documentation in the audit file that clearly indicates that

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professional scepticism was brought to bear in dealing with a significant matter. Set out in the AASB Staff Bulletin are examples of requirements and related application and explanatory material in CASs that help guide the auditor in properly applying professional scepticism in the following areas:

- Overall auditor alertness
- Risk assessment
- Related parties
- Accounting estimates
- Inquiries of others
- Accounting policies
- External confirmations
- Analytical procedures
- Testing of journal entries
- Evaluation of misstatements
- Other information
- Written representations
- Forming an opinion

**In conclusion**

Auditors are encouraged to consider the matters discussed in this Bulletin, and continue to improve the application of professional scepticism in the audits they perform.

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**Available resources and links**

- [AASB Staff Bulletin \(February 2012\)](#)

# Proposed standards



## IAASB Consultation Paper: Enhancing the Value of Auditor Reporting: Exploring Options for Change

**Comment period ended August 26, 2011 re the AASB and September 16, 2011 re the IAASB**

**Proposed standard:** IAASB Consultation Paper: Enhancing the Value of Auditor Reporting: Exploring Options for Change

**Proposed effective date:** N/A

**Published by:** IAASB and AASB

**Last updated:** March 2012

**Applicable to:** All entities

### Recent activities

At its March 2012 meeting, the IAASB discussed the scope and timing of the project to revise ISA 700, *Forming an Opinion and Reporting on Financial Statements*, and related other ISAs. The IAASB reaffirmed its commitment to this project as its highest priority over its 2012–2014 strategic period.

The IAASB considered a number of recommendations from the Auditor Reporting Task Force, including:

- Proposals requiring auditors to include auditor commentary in their reports. Amongst other matters, the Task Force was asked to further refine proposed requirements relating to the criteria for, and content of, auditor commentary, and develop a proposed objective for auditor commentary. In addition, it was noted that the relationship between auditor commentary and Emphasis of Matter and Other Matter paragraphs will need to be clarified.
- Proposals requiring auditors to include conclusions about the auditor's procedures relating to going concern and other information in documents containing audited financial statements. Amongst other matters, the Task Force was asked to further consider whether the proposed conclusion should be expanded to take into account the concept of "material uncertainties" as described in ISA 570, *Going Concern*.
- Proposals to clarify the auditor's responsibilities by describing the risk-based audit approach under the ISAs, and clarification of other technical terms in the auditor's report. The IAASB also deliberated disclosure of the engagement partner's name in the auditor's report.
- Proposals relating to the concept of the "building blocks" approach designed to indicate required content in auditor reporting while allowing flexibility to accommodate different national reporting regimes and auditors' reports on entities of different types and sizes (e.g., listed entities, small- and medium-sized entities, and public interest entities).

At its December 2011 meeting, the IAASB considered a summary of the significant comments received from the respondents to the Consultation Paper (CP), and approved a project proposal to address relevant issues at its December 2011 meeting. While accepting of the plan to issue a comprehensive ED by June 2013 as outlined in the project proposal, the Board advised that serious consideration should be given to exploring ways to accelerate the project timetable or engage global stakeholders earlier than 2013 through meaningful consultation on key issues.

In June 2011, the AASB issued an Invitation to Comment (ITC) on the IAASB's CP, "Enhancing the Value of Auditor Reporting: Exploring Options for Change", with a request for comments by August 26, 2011.

In May 2011, the IAASB issued a CP seeking to determine whether there are common views among users of audited financial statements and other stakeholders about the usefulness of auditor reporting. It describes issues with current financial reporting, including a perceived "information gap," identified by

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some stakeholders. Comments are requested by September 16, 2011.

## In summary

The purpose of this international consultation is to determine whether there are common views among key users of audited financial statements and other parties to the financial reporting process about the usefulness of auditor reporting, and to explore possible options to enhance the quality, relevance and value of auditor reporting.

Information gathered to date signals that:

- The financial statement audit and the independent auditor's opinion on an entity's financial statements are valued. However, other than communicating the auditor's overall conclusion, the content of the auditor's report is not viewed as being as useful or informative as it could be.
- Users recognize there is richer information about the entity and about the audit itself than is currently being provided through the audited financial statements and other corporate disclosure mechanisms, and through the auditor's report. Users wish to obtain this richer information directly from the entity and/or through communications about the auditor's insight into such matters. They believe such information would assist them in assessing the financial condition and performance of the entity, as well as the quality of its corporate reporting and the quality of the audit. This is referred to as the —information gap. This is not the same as the —expectations gap, but overlaps with it. Both are discussed further in the consultation paper.
- Some users also believe that the communicative value of the auditor's report could be improved if changes were made to the structure and wording of the auditor's report.
- There are many potential options for changes that might address these concerns, including some shorter-term options that fall under the IAASB's mandate and some longer-term options that would require co-operation with organizations whose mandate extends to other regulatory and legislative frameworks.

The objective of this project is to determine if there are common views among financial statement readers about how the audit report could be more useful or more informative. The paper provides some discussion on the extent to which audit reports should seek to narrow the "expectations gap," or the difference between what an audit is intended to accomplish and what it actually does. Auditors have long battled expectations on the part of investors that routine audits should expose fraud. The paper also discusses the more recent investor demands to close the "information gap," or information that investors want to see added to audit reports, primarily as a result of major corporate failures that weren't foretold in audited financial statements or audit reports.

## Available resources and links

- [IAASB Project Summary](#)
- [IAASB's exposure-draft \(www.ifac.org\)](http://www.ifac.org)

## IAASB/AASB ISRE 2400 (Revised), Review Engagements

**Comment period ended on April 11, 2011 (May 20, 2011 for the IAASB's exposure draft)**

**Proposed standard:** This ITC of the AASB requests comments on the IAASB's ED regarding proposed revisions to ISRE 2400, *Engagements to Review Historical Financial Statements*. Input from Canadian stakeholders through this ITC is an important step in the process of obtaining information to allow the AASB to make an informed decision about whether or not to adopt ISRE 2400 (Revised) in Canada.

**Proposed effective date:** N/A – ITC only

**Published by:** AASB and AASB

**Last updated:** March 2012

**Applicable to:** All entities

### Recent activities

At its March 2012 meeting, the IAASB considered significant comments received on the ED. Topics discussed included: the use of the term "limited assurance" in the draft ISRE; the evidence-based nature of the review engagement; designing the work effort for the review, including with respect to performing procedures other than inquiry and analytical review; and the illustrative review engagement report. The IAASB will consider a revised draft of ISRE 2400 (Revised) for approval as a final standard at its June 2012 meeting.

At its December 2011 meeting, the IAASB considered a preliminary analysis of significant comments received on the ED. Topics discussed included: inclusion of a definition of limited assurance in the draft ISRE; the evidence-based nature of a review; application of common principles for limited assurance engagements; and the need to clarify differences between the proposed ISRE and ISRE 2410. The IAASB will continue its consideration of key issues and a revised draft of the proposed ISRE at its March 2012 meeting.

In May 2011, the AASB reviewed comments received on its ITC and discussed a draft response letter to the IAASB's Exposure Draft.

In February 2011, the AASB issued this ITC to urge Canadian stakeholders to provide input on the IAASB's ED that proposes to revise ISRE 2400, *Engagements to Review Historical Financial Statements*.

### In summary

In June 2009, the AASB approved a project to revise or replace the review engagement standards for financial statements and other historical financial information including: Section 8100, *General Review Standards*, Section 8200, *Public Accountant's Review Of Financial Statements*, and Section 8500, *Reviews Of Financial Information Other Than Financial Statements* (the 8000 series). The purpose of the project is to (i) improve the robustness of the standards by reflecting current practice; and (ii) appropriately address the needs expressed and issues raised by practitioners and other Canadian stakeholders.

For similar reasons, the IAASB is also currently undertaking a project to revise its standard for review engagements, ISRE 2400, *Engagements to Review Historical Financial Statements*, and has recently issued an ED that proposes to revise ISRE 2400.

The purpose of the IAASB's ED is to help practitioners around the world who perform review engagements to improve the robustness of the standard by reflecting current practice, to converge towards the use of a globally accepted benchmark for review engagements, and to facilitate development

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of practice in jurisdictions that currently do not have national standards in this area.

The AASB is not proposing to adopt ISRE 2400 (Revised) for use in Canada at this time. Responses from Canadian stakeholders to this ITC will be an important source of information to the AASB in making a decision on whether to adopt the ISRE. The ITC includes specific questions on which the AASB is seeking input on from interested stakeholders. To assist stakeholders in considering these questions, the Appendix to the ITC compares key aspects of the IAASB's ED and the equivalent 8000 series of Canadian standards.

The AASB intends to continue to monitor the development of the proposed ISRE 2400 (Revised) and the IAASB's discussions and decisions. Any proposed revisions to, or replacement of, the existing Canadian review engagement standards would be made by the AASB following its due process, including an ED that would be publicly exposed for comment by Canadian stakeholders.

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#### **Available resources and links**

- [IAASB Project Summary](#)
- [ISRE 2400 \(Revised\), Engagements to Review Historical Financial Statements \(www.ifac.org\)](#)
- [AASB ITC](#)
- [AASB Project Summary](#)

## IAASB/AASB ISAE 3410, Assurance Engagements on Greenhouse Gas Statements <sup>UPDATED</sup>

### Comment period ended on April 18, 2011

**Proposed standard:** This ED of the AASB proposes, subject to comments received following exposure, to adopt, with appropriate amendments, if any, proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, of the IAASB for use in Canada. The result would be a new Canadian Standard on Assurance Engagements (CSAE) 3410 with the same title.

**Proposed effective date:** Subject to comments received on proposed ISAE 3410, the IAASB intends to finalize the revised standard in late 2012. The AASB expects to finalize CSAE 3410 shortly after the IAASB finalizes ISAE 3410.

**Published by:** AASB and IAASB

**Last updated:** April 2012

**Applicable to:** All entities

### Recent activities

The AASB plans to approve an equivalent new standard, CSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, at their meeting on April 30, 2012.

At its meeting in March 2012, the IAASB approved for issue, subject to confirmation by the PIOB that due process has been followed, the new ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*. ISAE 3410 will be effective for assurance reports covering periods ending on or after September 30, 2013.

At its meeting in December 2011, the IAASB considered significant comments received on the ED. The IAASB will consider a revised draft of the standard for approval at its March 2012 meeting.

In May 2011, the AASB reviewed a summary of the discussions and issues raised by participants at an online roundtable session conducted by the AASB staff to obtain input from practitioners on matters related to the proposed ISAE/CSAE 3410. The AASB also reviewed comments received from Canadian stakeholders on the ED of proposed CSAE 3410 and discussed a draft response letter to the IAASB's ED of ISAE 3410.

In January 2011, the IAASB published a proposal to provide guidance for accountants who provide assurance on reports about greenhouse-gas emissions that are a key component in sustainability reporting.

In March 2011, the AASB has issued an ED that proposes to adopt, with appropriate amendments, if any, the proposed ISAE as a new Canadian CSAE.

### In summary

The IAASB's proposed ISAE 3410 has been developed through a robust program of consultation, including a series of global roundtables and feedback received on an earlier Consultation Paper. The proposed standard addresses the practitioner's responsibilities in identifying, assessing, and responding to risks of material misstatement, and contains illustrative assurance reports on greenhouse gas statements. The proposed requirements and guidance also recognize that most engagements will be undertaken by a multidisciplinary team, so they address the need for the assurance practitioner to integrate experts—in engineering or environmental science, for example—into various stages of the engagement.

The AASB's ED consists of:

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- a link to the IAASB's Exposure Draft;
  - a reference to the project timetable for ISAE 3410 and the equivalent CSAE 3410;
  - a discussion of key differences between international and Canadian standards for assurance engagements; and
  - a discussion of significant proposed Canadian amendments.

The AASB's ED requests Canadian stakeholders to provide comments to the IAASB on its proposed ISAE 3410 with a copy to the AASB, preferably before April 18, 2011, so that the AASB will be able to take these comments into account in formulating its own response to the IAASB's Exposure Draft. In addition, it requests comments directly to the AASB on the proposed Canadian amendments, including whether Canadian stakeholders believe that the proposed amendments are warranted and meet the AASB's criteria for such amendments.

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**Available resources and links**

- [IAASB Project Summary](#)
- [The IAASB's Proposed ISAE 3410, Assurance Engagements on Greenhouse Gas Statements](#)
- [AASB Project Summary](#)
- [AASB's ED](#)

## IAASB/AASB ISRS 4410 (Revised), Compilation Engagements

### Comment period ended on February 1, 2011

**Proposed standard:** This ITC of the AASB requests comments from Canadian stakeholders on the IAASB's ED of proposed revisions to ISRS 4410, *Compilation Engagements*. The AASB is not proposing to adopt ISRS 4410 (Revised) at this time. The AASB plans to monitor the development of proposed ISRS 4410 (Revised) and the IAASB's discussions and decisions. At its meeting on September 12-14, 2011, the AASB approved a project proposal to revise Section 9200.

**Proposed effective date:** N/A – ITC only

**Published by:** AASB and IAASB

**Last updated:** March 2012

**Applicable to:** All entities

### Recent activities

On March 16, 2012, following approval by the Public Interest Oversight Board, the IAASB issued ISRE 4410 (Revised), together with a Basis for Conclusions document.

At its meeting in December 2011, the IAASB approved ISRE 4410 (Revised), subject to confirmation by the Public Interest Oversight Board that due process has been followed. ISRS 4410 (Revised) is effective for compilation engagement reports dated on or after July 1, 2013.

At its meeting on September 12-14, 2011, the AASB discussed matters related to the IAASB's project to revise ISRS 4410, *Compilation Engagements*. The AASB also approved a project proposal to revise Section 9200, *Compilation Engagements*. Initially, this project will focus on conducting research to obtain the views of users of compiled financial statements on whether their needs are being met.

The IAASB considered comments received on the exposure draft of the proposed ISRS 4410 (Revised) at its June 2011 meeting

In June 2011, the AASB discussed matters related to the IAASB's project to revise ISRS 4410, *Compilation Engagements*. The AASB also discussed whether a project should be undertaken in Canada to revise or replace Section 9200, *Compilation Engagements*. The AASB asked staff to prepare a project proposal for the AASB to consider at a future meeting.

In November 2010, the AASB issued an ITC to encourage Canadian stakeholders to provide input on the IAASB's recent ED of proposed ISRS 4410 (Revised), *Compilation Engagements*.

### In summary

The IAASB has concluded that the existing version of ISRS 4410 is both outdated and in need of revision to better assist practitioners in providing services to small- and medium-sized entities that increasingly are not required to have their financial statements audited.

While the AASB is committed to adopting the ISAs decisions on whether to adopt other international assurance and related services standards are made on a case-by-case basis. For these standards, the AASB performs an assessment involving consideration of a number of factors related to whether the proposed standard meets the needs of Canadian stakeholders. The AASB is not proposing to adopt ISRS 4410 (Revised) at this time.

The AASB will continue to monitor the development of proposed ISRS 4410 (Revised) and the IAASB's discussions and decisions. The AASB will also determine whether a project to revise the equivalent Canadian standard Section 9200, *Compilation Engagements*, should be initiated in the near term or

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deferred to a later time, including the possibility of replacing that Section with a new Canadian standard that would essentially adopt ISRS 4410 (Revised). Any proposed revisions to, or replacement of, Section 9200 would only be made by the AASB following its due process, including public exposure for comment by stakeholders.

With respect to possible revisions to Section 9200 in 2007, the AASB made limited revisions to Section 9200, which 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. At the time of this project, input from Canadian stakeholders and the task force undertaking the work indicated that Section 9200 may need other revisions.

The AASB is also concerned that a wide variation in practice may result in inconsistent financial information entering the public domain. Two practitioners performing similar compilation engagements may compile significantly different sets of financial statements.

A further, and related, concern of the AASB is with respect to the communication in the Notice to Reader. Management may distribute the financial statements with the Notice to Reader to external users who, although cautioned that the financial statements may not be appropriate for their purposes, may place undue reliance on them. Such undue reliance may result because the Notice to Reader provides very little information about the nature and extent of work performed by the public accountant or the value he or she brings to a compilation engagement.

To also assist stakeholders in considering these questions of the AASB in relation to Section 9200 the Appendix to the ITC compares key aspects of the proposed ISRS 4410 (Revised) and current Section 9200. These differences relate to the following issues:

- Identification of the purpose (use) of the financial statements
- Identification of the applicable financial reporting framework
- Acknowledgment by management of its responsibilities
- Applicability of quality control standards
- Documentation
- Practitioner's compilation report

#### **Available resources and links**

- [IAASB Press Release \(March 2012\)](#)
- [ISRS 4410 \(Revised March 2012\)](#)
- [ISRS 4410 \(Revised March 2012\) – Basis for Conclusions](#)
- [IAASB Project Summary](#)
- [IAASB ED](#)
- [AASB's Invitation to comment \(www.aasbcanada.ca\)](http://www.aasbcanada.ca)

## IAASB Plan for a Post-implementation Review of the Clarified International Standards on Auditing

### Comment period ends on September 7, 2012

**Proposed standard:** N/A. This ITC represents Phase 2 of the implementation of the new international standards on auditing (ISAs) that have been adopted in Canada as CASs. The purpose is to determine whether there is any need for further refinement of those standards, including in order to achieve the IAASB's goals for the ISAs that were revised.

**Proposed effective date:** N/A

**Published by:** AASB & IAASB

**Last updated:** February 2012

**Applicable to:** All entities

### Recent activities

On February 27, 2012, the AASB has issued this ITC requesting Canadian stakeholders to provide comments on the IAASB's *Plan for a Post-implementation Review of the Clarified International Standards on Auditing*.

### In summary

The Plan is Phase 2 of the IAASB's project to assess the effectiveness of the implementation of the International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, which became effective for audits of financial statements for periods beginning on or after December 15, 2009.

The IAASB describes Phase 2 as "a post-implementation review of the clarified ISAs [and ISQC 1], and certain recently revised ISAs, to determine whether there is any need for further refinement of those standards, including in order to achieve the IAASB's goals for the ISAs that were revised."

The primary objective of the Phase 2 review is to gather information about the use of the clarified ISAs and ISQC 1 to assist the IAASB to determine what, if any, changes are needed: (a) in order to increase the consistency of practitioners' understanding of the ISAs and ISQC 1; and (b) for the revised ISAs covered by the review to achieve the IAASB's goals in revising them in an efficient and effective manner. The post-implementation review is focused, therefore, on whether the clarified ISAs and ISQC 1 are being consistently understood and implemented in a manner that achieves the IAASB's goals in revising them, rather than revisiting whether the clarified ISAs need to be further enhanced to achieve audit quality. However, if, in the course of the review, issues come to the IAASB's attention that would help improve the ISAs and ISQC 1, the IAASB will analyze them and determine whether changes to the standards would be appropriate in promoting audit quality in the public interest.

The timetable of the post-implementation review is to gather information during 2012, summarize the information received in early 2013, and present the findings at the IAASB meeting in June 2013 for discussion. This timing will assist the IAASB in determining its priorities for 2014 and its next three year strategic planning cycle (2015–2017).

### Available resources and links

- [AASB ITC \(February 2012\)](#)
- [IAASB Project Summary](#)
- [IAASB Plan for a Post-Implementation Review of the Clarified International Standards on Auditing](#)

# Projects



## AASB Responsibilities Relating to Other Information

**Proposed changes:** The objective of this project is to revise CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

**Next steps:** The IAASB plans to issue an exposure draft of revisions to CAS 720 during Q1/2012.

**Published by:** IAASB and AASB

**Last updated:** February 2012

**Applicable to:** All assurance engagements

### Recent activities

At its December 2011 meeting, the IAASB considered a revised draft of ISA 720. Topics discussed included: the auditor's procedures when considering financial data in the other information; the concept of "material inconsistency;" the auditor's action when other information is identified that is inconsistent with the auditor's understanding of the entity and its environment; the concept of "initial release" in relation to the intended scope of the proposed standard; and documentation. The IAASB will consider a revised draft of an ED of the proposed changes to ISA 720 for exposure in 2012.

As of November 2011, the IAASB plans to approve an ED to revise ISA 720 during Q1/2012.

The IAASB plans to approve an ED to revise ISA 720 at their meeting on September 19-23, 2011.

At their meeting on September 12-14, 2011, the AASB discussed matters related to the IAASB's proposed exposure draft of revisions to ISA 720.

In March 2011, the AASB discussed matters related to the IAASB's proposed exposure draft of revised ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*.

In September 2010, the AASB reviewed the IAASB issues paper pertaining to the revision of International Standard on Auditing (ISA) 720.

In March 2010, the AASB reviewed analyses of issues pertaining to the revision of ISA 720.

### In summary

The AASB adopted ISA 720 (Redrafted) as CAS 720 effective for all financial statements audits for periods ending on or after December 14, 2010.

The AASB is committed to adopting the ISAs. Accordingly, revisions that the IAASB makes to ISA 720 will be reflected in CAS 720. Amendments, if any, that the AASB would make to the ISA wording would be in accordance with the AASB's criteria for such amendments, as set out in Appendix 1 of the Preface to the CICA Handbook – Assurance.

Key matters to be addressed by the ISA 720 revision project include the following:

- Whether the current definition of "other information" in the ISA is adequate in the current environment or whether, in the context of the range of other information being presented concurrently with audited financial statements, a different definition would be appropriate;
- The nature and extent of the auditor's responsibilities in connection with the other information including consideration of whether such responsibilities should remain directed at reading other information for material inconsistencies and material misstatements of fact, or whether it is appropriate to extend the responsibilities of the auditor;

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- Implications of electronic dissemination of audited financial statements and the auditor's report;
  - Whether and to what extent specific guidance should be included on the statutory and contractual requirements in some jurisdictions of auditors of public sector entities in relation to non-financial information.

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**Available resources and links**

- [IAASB project summary \(www.ifac.org\)](http://www.ifac.org)
- [AASB Project Summary](#)

## AASB Auditor's Role and Responsibilities in the Capital Markets (Revisions to the 7000 Series)

**Proposed changes:** Revisions to the Section 7000 Series of Standards of the CICA Handbook – Assurance (i.e. the Sections relating to the Auditor's Role and Responsibilities in the Capital Markets)

**Next steps:** EDs to be issued in late 2012 in respect of a revised standard dealing with the auditor's consent to the use of the auditor's report in an offering document.

**Published by:** AASB

**Last updated:** March 2012

**Applicable to:** All listed entities

### Recent activities

At their meeting on March 5-6, 2012, the AASB discussed issues related to the development of a revised standard dealing with the auditor's consent to the use of the auditor's report in an offering document. The revised standard would replace Section 7110, *Auditor involvement with Offering Documents of Public and Private Entities*, Section 7115, *Auditor Involvement with Offering Documents of Public and Private Entities – Current Legislative and Regulatory Requirements*, and AuG-30, *The Auditor's Consent and Comfort in Connection with Securities Offering Documents*. The completion of this aspect of the 7000 Series project will result in EDs being issued in late 2012.

At their meeting on October 18, 2011, the AASB discussed an issue that was raised by the securities regulators related to the disclaimer language in the regulatory consent letter under Section 7115, *Auditor Involvement with Offering Documents of Public and Private Entities – Current Legislative and Regulatory Requirements*. The AASB agreed that the Securities Regulations Advisory Group should look at this issue in light of the project underway to revise the 7000 series of Handbook Sections (i.e., Sections dealing with capital markets and securities regulations), recommend an appropriate course of action and report back to the AASB at a future meeting.

In September 2011, The changes proposed by these two March 2011 EDs were approved as changes to the Series 7000 standards by the AASB in September 2011.

In March 2011, the AASB approved two EDs of revisions to the Section 7000 Series of the CICA Handbook - Assurance (i.e. the CICA Handbook – Assurance Sections dealing with capital markets and securities regulations). The first ED, *Standards Affected by Changes in Canadian Securities Regulations*, proposes to amend or withdraw the out-dated material in Sections 7110 and 7115 and AuG-30 resulting from changes in Canadian securities regulations. The second ED, *Commenting in a Comfort Letter on Pro Forma Financial Information*, proposes new material to amend Section 7200 and provide requirements and guidance to auditors who are requested by underwriters to include in a comfort letter comments on the pro forma financial information. The EDs were issued in May 2011 with a comment deadline of June 24, 2011.

In January 2011, the AASB approved a project to update the 7000 Series of Standards.

### In summary

#### Project Summary

This project involves revising Sections and one Assurance and Related Services Guideline in the CICA Handbook – Assurance that focus primarily on the auditor's role and responsibilities in the capital markets. The Sections and Guideline to be revised include:

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Section 7050, Auditor Review of Interim Financial Statements;  
Section 7110, Auditor Involvement with Offering Documents of Public and Private Entities;  
Section 7115, Auditor Involvement with Offering Documents of Public and Private Entities — Current Legislative and Regulatory Requirements;  
Section 7200, Auditor Assistance to Underwriters and Others;  
Section 7500, Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents; and  
AuG-30, The Auditor's Consent and Comfort in Connection with Securities Offering Documents.

### Key issues that this project proposes to address

These include the following:

- Section 7050

Should Section 7050 contain a requirement prohibiting an auditor from issuing a written consent to the inclusion of his or her interim review report in a public document? Should Section 7050 contain a requirement for the auditor to disclaim responsibility to unintended users of the interim review report? Should public issuance of the interim review report be required, encouraged but not required, or prohibited? How should the interim report be worded to properly convey the auditor's work efforts? What is the impact, if any, of the IAASB's and the AICPA's development of standards dealing with interim reviews on Section 7050?

- Section 7110, Section 7115 and AuG-30

Should Section 7110 contain a requirement prohibiting an auditor from providing assurance on certain information? Should Section 7110, Section 7115 and AuG-30 contain requirements and guidance that go beyond the principles and concepts in Section 5025, Association? What is the impact, if any, of the IAASB's and the AICPA's development of standards dealing with offering documents on Section 7110, Section 7115 and AuG-30? What is the impact, if any, of changes in Canadian securities regulations regarding compilation reports on pro forma financial information and comfort letters on unaudited financial statements on Section 7110, Section 7115 and AuG-30?

- Section 7200

Are the four principles listed in paragraph 7200.009 on which Section 7200 is premised appropriate? What is the impact, if any, of the AICPA's development of standards dealing with providing assistance to underwriters on Section 7200? What is the impact, if any, of changes in Canadian securities regulations regarding compilation reports on pro forma financial information on Section 7200?

- Section 7500

Is deeming the auditor to be associated with the Annual Information Form (AIF) filed with securities regulators appropriate? What is the impact, if any, of the IAASB's development of International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, which the AASB has adopted in Canada as CAS 720 with the same title, on Section 7500?

### Timetable

The 7000 series project will be undertaken through a phased-in approach over five years, as follows.

- 2011: Section 7200, and general amendments to other Sections for out-dated material;
- 2012: Section 7500 (re IAS 720 Revised);
- 2013: Sections 7050, 7110, 7115 and AuG-30;
- 2014: Section 7500 (re final changes);
- 2015: Section 7200 (re final changes).

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### Available resources and links

- [AASB Project Summary](#)

# Abbreviations, a list of most commonly used acronyms

AASB	Auditing and Assurance Standards Board
AASOC	Auditing and Assurance Standards Oversight Council
AcSB	Accounting Standards Board
ASC	Alberta Securities Commission
AMF	Autorité des marchés financiers
BCSC	British Columbia Securities Commission
CAS	Canadian Auditing Standard
CPRB	Canadian Performance Reporting Board
CSA	Canadian Securities Administrators
DP	Discussion Paper
ED	Exposure Draft
EIC	Emerging Issues Committee
FAQ	Frequently Asked Questions
FRE	Federally Regulated Entities
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions Canada
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IIROC	Investment Industry Regulatory Organization of Canada
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
ITC	Invitation to Comment
PSAB	Public Sector Accounting Board
SOP	Statement of Principles

# Additional resources

The following Deloitte resources will assist you in maintaining your financial literacy throughout the year. To obtain more information about any of these resources, please communicate with your Deloitte partner or one of our contacts listed at the end of the publication.

Thought Leadership

## **Centre for Corporate Governance**

This Web site is specifically designed to help board members with their responsibilities. It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.

([www.CorpGov.Deloitte.ca](http://www.CorpGov.Deloitte.ca))

## **Deloitte IFRS e-Learning Program for Directors™**

This learning program provides the flexibility of individual self-study, with the option of group sessions facilitated by a Deloitte IFRS professional.

([http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Page%20Copy/Financial%20Reporting/IFRS/IFRS\\_eLearningForDirectors.pdf](http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Page%20Copy/Financial%20Reporting/IFRS/IFRS_eLearningForDirectors.pdf))

## **Financial Reporting Assessment Tools**

Comprehensive assessment tools to help management and Directors determine whether or not their organizations' financial statements and other financial filings meet all of the continuous disclosure obligations.

(<http://www.corpgov.deloitte.com/site/CanEng/self-assessments-tools-and-other-resources/financial-reporting-tools/>)

Periodicals

## **IFRS in Focus**

We publish *IFRS in Focus* newsletters at the time of release of new and revised Standards and Interpretations, Exposure Drafts and discussion documents, including summaries of the documents and consideration of the principal amendments/proposals.

(<http://www.iasplus.com/en/tag-types/global-publications/ifrs-in-focus-newsletters>)

## **DeloitteLINK**

A weekly e-newsletter that helps you stay on top of standard-setting initiatives.

(<http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/deloittelink/>)

## **Deloitte Update**

Our new live webcast series featuring our professionals discussing critical issues that affect your business.

(<http://www.corpgov.deloitte.com/site/CanEng/financial-reporting/deloitte-update/>)

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**Publication date** April 30, 2012. This page does not reflect changes made by standard-setting bodies after this date.

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