

CURRENT DEVELOPMENTS

Canadian Assurance & Related Services

Q2 2022

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Newly Effective Audit Standards Issued

Standard	Applicability	Why did this change?	Key changes to the audit
CAS 315 (Revised), <i>Identifying and Assessing the Risks of Material Misstatement</i>	Audits of financial statements for periods beginning on or after December 15, 2021.	<p>The standard has been revised, reorganized, and modernized in response to challenges and issues with the previous standard.</p> <p>It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology.</p> <p>Conforming and consequential amendments have been made to other International Standards on Auditing.</p>	<p>A more robust risk identification and assessment process, including:</p> <ul style="list-style-type: none"> — A new requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement — A new concept of significant classes of transactions, account balances and disclosures and relevant assertions — A new requirement to separately assess inherent risk and control risk for each risk of material misstatement — Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk — A requirement to perform a 'stand back' at the end of the risk assessment process — A new requirement to understand the extent to which the business model integrates the use of IT. — Strengthened documentation to demonstrate the exercise of professional scepticism — Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control

Standard	Applicability	Why did this change?	Key changes to the audit
CAS 701, <i>Communicating key audit matters in the independent auditor's report</i>	Audits of complete sets of general purpose financial statements of other listed entities (e.g., TSX-Venture issuers), excluding listed entities required to comply with National Instrument 81-106, <i>Investment Fund Continuous Disclosure</i> , for periods ending on or after December 15, 2022.	Key audit matters (KAMs) are those matters that were communicated to those charged with governance which required significant audit attention in performing the audit and that, in the auditor's professional judgment, were of the most significance in the audit of the financial statements in the current period.	<p>The auditor is required to identify from that total population of potential KAMs, which matters required significant auditor attention in performing the audit. In doing so, the auditor is required to take into account the following:</p> <ul style="list-style-type: none"> – Areas of higher assessed risks of material misstatement identified – Areas of significant financial reporting risks identified – Significant auditor judgments relating to areas in the financial statements that are subject to a high degree of estimation uncertainty – The effect of the audit of significant events or transactions that occurred during the period <p>From that population of potential KAMs, the auditor identifies those matters that are of "most" significance in the audit. The use of the term "most" is not intended to limit the number of KAMs to one. However, lengthy lists of KAMs may be contrary to the notion that such matters are of most significance to the audit.</p>

Newly Effective Related Services Standards

Standard	Applicability	Why did this change?	Key changes
CSRS 4400, <i>Agreed-Upon Procedures Engagements</i>	Effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022.	CSRS 4400 combined two extant Canadian standards and was developed to align with ISRS 4400 (Revised).	CSRS 4400 applies to both financial and non-financial subject matters and clarifies a number of issues for the practitioner related to the scope of work to be performed. Additional requirements include: <ul style="list-style-type: none"> — Strengthened documentation to demonstrate the exercise of professional scepticism — Introduction of requirements for continuance and acceptance
CSRS 4200, <i>Compilation Engagements</i>	Effective for compiled financial information for periods ending on or after December 14, 2021.	Standards related to compilation engagements had not been significantly revised since initial issuance in 1987. Through consultation, the Auditing and Assurance Standards Board (AASB) noted several gaps in the old standard.	CSRS 4200 provides greater clarity on the services included in the scope of compilation engagements. Additional requirements include: <ul style="list-style-type: none"> — Issuance of a new engagement letter — A requirement to ask management about the intended use of the compiled information, including whether it is intended to be used by a third party — Inclusion of a description of the basis of accounting is required to be included in a note in the compiled financial information

Proposed Standards

Audit Evidence

At its May meeting, the AASB discussed the International Auditing and Assurance Standards Board's (IAASB) proposed International Standard on Auditing (ISA) 500, *Audit Evidence*. Key issues discussed included:

- how persuasiveness relates in determining sufficient and appropriate audit evidence;
- presenting biases that impact the auditor; and
- clarifying the use of remote observation as an audit procedure.

In June, The AASB discussed the IAASB's proposed revisions to ISA 500 including the following:

- the objectives of the standard;
- the definition for audit evidence;
- the addition of general information technology control examples in the standard;
- the inclusion of a diagram on ISA 500 in the explanatory memorandum to the exposure draft; and
- the conforming amendments related to ISA 500.

Sustainability/ESG Assurance

The International Sustainability Standards Board (ISSB) released two proposed standards and the SEC and European Financial Reporting Advisory Group (EFRAG) released separate proposed standards.

- The Task Force on Climate-related Financial Disclosures framework is a shared input for each of the proposals;
- The ISSB and the SEC proposals include requirements to report on climate only (to date), whereas the EFRAG proposal includes granular requirements for sustainability impacts, risks and opportunities;
- No effective date provided for the ISSB proposed standards; and
- The earliest reporting date for the SEC proposal applies to large, accelerated filers, would be effective for the 2023 fiscal year, and would require limited assurance.

Fraud

The AASB discussed issues related to the IAASB's project to revise ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. Key issues discussed included:

- the introductory paragraphs of the standard;
- the need for specialized skills;
- identifying and assessing the risks of material misstatement due to fraud;
- the presumption of fraud risk in revenue recognition;
- clarifying the requirements and application of material in ISA 240 related to the approach to testing journal entries; and
- communication with those charged with governance;

Listed Entity and Public Interest Entity

The AASB discussed issues related to the IAASB's narrow-scope maintenance of standards project on listed entity and public interest entity. Key issues discussed include:

- the IAASB's proposed revisions to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 260 (Revised), *Communication with Those Charged with Governance*;
- the content of the IAASB's draft exposure draft, including the proposed approach to revisions, along with the alternative approach set out in the draft explanatory memorandum; and
- the IAASB's approach to possible revisions to International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*.

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