

**CURRENT DEVELOPMENTS**

# **Canadian Assurance & Related Services**

**Q3 2022**

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# Newly Effective Audit Standards Issued

Standard	Applicability	Why did this change?	Key changes to the audit
CAS 315 ( <i>Revised</i> ), <i>Identifying and Assessing the Risks of Material Misstatement</i>	Audits of financial statements for periods <b>beginning on or after</b> 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 (ISA).</p>	<p>A more robust risk identification and assessment process, including:</p> <ul style="list-style-type: none"> <li>– A new requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement.</li> <li>– A new concept of significant classes of transactions, account balances and disclosures and relevant assertions.</li> <li>– A new requirement to separately assess inherent risk and control risk for each risk of material misstatement.</li> <li>– Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk.</li> <li>– A requirement to perform a 'stand back' at the end of the risk assessment process.</li> <li>– A new requirement to understand the extent to which the business model integrates the use of IT.</li> <li>– Strengthened documentation to demonstrate the exercise of professional scepticism.</li> <li>– Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control.</li> </ul>

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, Investment Fund Continuous Disclosure, for periods <b>ending on or after</b> 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"> <li>– Areas of higher assessed risks of material misstatement identified.</li> <li>– Areas of significant financial reporting risks identified.</li> <li>– Significant auditor judgments relating to areas in the financial statements that are subject to a high degree of estimation uncertainty.</li> <li>– The effect of the audit of significant events or transactions that occurred during the period.</li> </ul> <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 <b>on or after</b> 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"> <li>— Strengthened documentation to demonstrate the exercise of professional scepticism.</li> <li>— Introduction of requirements for continuance and acceptance.</li> </ul>
CSRS 4200, <i>Compilation Engagements</i>	Effective for compiled financial information for periods ending <b>on or after</b> 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"> <li>— Issuance of a new engagement letter.</li> <li>— 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.</li> <li>— Inclusion of a description of the basis of accounting is required to be included in a note in the compiled financial information.</li> </ul>

# Proposed Standards

## Audit Evidence

At its September meeting, The AASB discussed issues related to the International Auditing and Assurance Standards Board's (IAASB) proposed revisions to ISA 500, *Audit Evidence*. Key issues included:

- a full review of proposed ISA 500;
- the conforming and consequential amendments related to ISA 500;
- the exposure period and the proposed implementation period; and
- the topics to be covered in the explanatory memorandum accompanying the exposure draft of ISA 500.

The IAASB approved an exposure draft at its September 2022 meeting with the AASB expected to then approve a Canadian exposure draft shortly after.

## 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 included:

- options for adding further transparency in the auditor's report regarding fraud;
- whether the proposed changes should apply to listed entities or all entities; and
- the proposed structure for ISA 240.

## Going Concern

The AASB discussed issues related to the IAASB's project to revise ISA 570 (Revised), *Going Concern*. Key issues included:

- terminology;
- risk identification and assessment;
- management's assessment of going concern;
- professional skepticism; and
- transparency about going concern in the auditor's report.

## Listed Entity and Public Interest Entity

The AASB discussed its draft responses to the IAASB's Exposure Draft, *"Proposed Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and ISA 260 (Revised), Communication with Those Charged with Governance as a Result of the Revisions to the International Ethics Standards Board for Accountants (IESBA) Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIE)."* Key issues discussed included:

- whether the auditor's report is the appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audits of financial statements;
- the proposed revisions to ISA 700 (Revised) and ISA 260 (Revised);
- whether the IAASB should consider revisions to International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, to address transparency about the ethical requirements for independence applied for certain entities;
- the proposed effective date of the revisions to ISA 700 (Revised) and ISA 260 (Revised);
- when auditors should be required to disclose in the auditor's report the independence requirements they complied with;
- whether auditors should be required to communicate the independence requirements applied in their communications with those charged with governance; and
- the potential Canadian amendments to the IAASB proposed revisions.

At its September 29, 2022 meeting, the AASB discussed its draft response to the IAASB's exposure draft which was submitted ahead of the IAASB's October 4, 2022 comment deadline.

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