

## **What's New**

Update #41

September 2008

### **To: Subscribers of the Professional Engagement Manual – Update #41**

Dear Colleagues:

Enclosed is Update #41 to the **CICA Professional Engagement Manual**. This important update contains:

- Significant improvements to the existing planning and risk assessment forms; and
- Two new sets of audit forms: one for smaller audits and one for audits of not-for-profit entities.

These improvements are in response to the valued feedback received from our subscribers. In summary, the forms:

- Provide an objective and more explicit guidance on the specific requirements of the audit standards; and
- Are simplified, where possible, to make them easier to understand and complete.

### **Canadian Auditing Standards (CASs)**

The forms in this update refer to the decision of the Auditing and Assurance Standards Board (AASB) to adopt the clarified International Auditing Standards and name them Canadian Auditing Standards (CASs). Where there is no difference between the requirements of approved CASs and existing *CICA Handbook - Assurance* standards, the PEM forms will begin to refer to (or quote) the relevant CASs.

The full text of the CASs approved by the AASB are now included in the *CICA Handbook - Assurance* in a separate section. The standards will become fully effective for audits of financial statements for periods beginning on or after December 15, 2009. Where the new standards differ from existing ones, auditors may choose to implement aspects of the CASs before their effective date, provided that those auditors still comply with all of the standards currently in effect.

## **IMPORTANT NOTICE**

### **Section 1535 – Capital Disclosures**

The recent amendments to Section 1535 – Capital Disclosures of the *CICA Handbook – Accounting* have not been addressed in this update. Firms are encouraged to read the revised section and ensure the requirements are incorporated into their audit plans.

### **CA Alert - Update on Financial Reporting Standards for Private Enterprises**

The Accounting Standards Board (ASCB) has decided that private enterprises will not be required to apply the current financial instruments standards. For more details, read the CA Alert at: <http://www.cica.ca/4/6/6/8/1/index1.shtml>

### **PEM #42**

These recent changes will be incorporated into the relevant forms in PEM Update #42. To ensure everyone in your firm is up-to-date, please distribute this highlights letter to all staff.

Highlights of this update include:

### **Condensed Forms for Smaller Audits**

Alternative (condensed) forms have been developed for smaller audits. They set out the form's objective, the relevant Handbook requirements, and some "consider points".

These condensed forms are designed to provide more flexibility for tailoring the auditor's responses to the particular client's circumstances. If there is uncertainty as to what should be documented or what is required by a condensed form, users are encouraged to refer to the full version of the form (which has the same form number but without the small 'c' after the form number) and to the *CICA Handbook - Assurance*.

The new condensed forms contained in this update are:

- 400c Overall audit strategy
- 402c Audit team discussion meeting
- 510c Identifying risks through understanding the entity
- 520c Risk Assessment — Business/ operating
- 522c Risk Assessment — Fraud
- 530c Entity level controls — Design/implementation
- 532c General IT controls — Design/implementation
- 568c Control design— [Blank]
- 570c Control design— F/S preparation
- 572c Control design— Payroll
- 574c Control design— Revenues, receivables and receipts
- 578c Control design — Purchases, payables, payments

The Control design forms (570-578) set out some typical risks of material misstatement that

should be addressed in the audit either by substantive tests or through tests of control. They also provide space to record relevant internal control procedures by assertion.

### **Not-for-profit Audit Forms**

Not-for-profit (NFP) forms have been developed to address the specific audit risks and requirements for a not-for-profit entity. The NFP form numbers parallel those used for the regular audit. Some condensed NFP forms have also been developed.

The NFP forms contained in this update are:

NFP 510	Identifying risks through understanding the entity
NFP 574	Control design matrix — NFP Revenues, receivables and receipts
NFP 578	Control design matrix — NFP Purchases, payables, payments
NFP C.100	Accounts, contributions and pledges receivable – Audit procedures
NFP MM.100	Deferred contributions — Audit procedures
NFP TT.100	Net assets (surplus, fund balance) for not-for-profit organizations — Audit procedures
NFP 705	Revenues — Audit procedures
NFP 805	Presentation and disclosure checklist
Condensed	
NFP 510c	Identifying risks through understanding the entity
NFP 574c	Control design— NFP Revenues, receivables and receipts
NFP 578c	Control design— NFP Purchases, payables, payments

## Revised Audit Forms

A number of the planning and risk assessment audit forms have been revised to provide more guidance on what is required and to make the forms more user friendly. Some of the form changes are outlined below:

400	Overall Audit Strategy	This form has been reorganized and simplified.
402	Audit team discussions	This form has been reorganized and simplified.
510	Identifying risks through understanding the entity	This form was formerly called “Understanding the entity”. It now provides a listing of possible risk factors for each area of understanding, including the required understanding of internal control.
520	Risk assessment – Business/operating	This form was formerly called “Risk register – business operating”. The purpose of this form is to record and assess all the identified business risks in a single place. This avoids duplication of risks throughout the working paper file, which facilitates the manager/partner review. The form has also been redesigned to include an extra column to record residual risk (the combination of inherent and control risks).
522	Risk assessment — Fraud	Formerly called “Risk register — Fraud”, this form is very similar to Form 520 but should always be kept separate from business risks. If fraud risks are mingled with other business risks, the fraud risk assessment could miss indicators of potential fraud such as patterns, oddities or exceptions.
530	Entity level controls — Design/implementation	This form has been completely redesigned to provide details of specific entity level risks and a list of possible controls that would mitigate such risks. In addition, the form now addresses fraud risk.
532	General IT controls — Design/implementation	This form has also been redesigned to provide details of general IT risks and a listing of possible controls that would mitigate such risks.
534	Control documentation and implementation	This form has been completely revised to reflect a “top down” approach to control evaluation as opposed to the traditional “bottom up” approach. Instead of starting by documenting the system and then identifying the relevant controls, this form assumes that relevant controls have already been identified (such as through discussion with management) and that only the operation/implementation of relevant controls needs to be documented/ evaluated.
568-578	Control design matrices	These forms have been simplified.
626	Worksheet — Going concern	The questions have been reorganized and the form simplified.

## Managing the Transition to the New Audit Forms

The following provides some tips for managing the transition to the use of the new forms.

### Previously Completed Audit Forms

Note that where audit forms have been completed prior to this update, they may still be used to carry forward to future periods. It is not necessary to copy the information to the new version of the corresponding form. However, it is highly recommended that newer versions of the forms be used for **new** engagements or where the previous form will need extensive updating in any event.

### Use of the Condensed Audit Forms

The use of the condensed forms is optional.

To avoid potential misunderstanding and unnecessary engagement risk, firms may wish to restrict the use of the condensed forms to specific situations where one or more of the following characteristics are present:

- Uncomplicated operations;
- Few employees;
- Few sources of income and limited operating activities;
- Simple business processes and accounting systems, assuming they are appropriate for the size of the entity;
- Ownership is concentrated in a small number of individuals, one or more of whom is actively involved in managing the business on a day-to-day basis;
- Management (owners) have a good attitude toward control as evidenced by their active involvement in managing most aspects of operations; and
- Total audit hours required are less than a specified number, say 50.

### Documentation Requirements

When using condensed forms, remember that the documentation requirements with respect to audit risk are quite extensive and prescriptive. For example, CAS 315.33 (HB 5141.123) requires documentation of *each* of the aspects of understanding of the entity and its environment (as specified in CAS 315.11 or HB 5141.020) and *each* of the internal control components (as specified in CAS 315.14-23 or HB 5141.043). It also requires documentation of the sources of information from which the understanding was obtained and the risk assessment procedures performed.

In light of the above, firms are encouraged to take the necessary steps to ensure that the reasons are documented on file for each instance where a particular requirement (based on the auditor's professional judgment) is considered unnecessary or not applicable to the client's particular circumstances.

**We Welcome Your Comments**

We hope that the PEM continues to meet your practice needs. We appreciate hearing from our subscribers and will continue to respond to your valued comments and suggestions. Please send your comments to my attention by mail, e-mail [bryan.walker@cica.ca](mailto:bryan.walker@cica.ca) or fax (416) 204-3414.

Yours very truly,

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