

Message from the Chair

New Auditor Reporting and Other Standards Issued

May 2017

In April 2017, the [Auditing and Assurance Standards Board](#) (AASB) adopted International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) as Canadian Auditing Standards (CASs) dealing with:

- auditor reporting;
- changes to performance standards with respect to going concern;
- changes to address the audit of financial statement disclosures; and
- reporting and other responsibilities relating to other information included in an entity's annual report.

The new auditor's report, adopted by more than 110 countries, represents a step change in the information content of the report. It better describes what an audit is and what an auditor does, including an ability to provide further transparency in the reporting of key audit matters.

New standards to be issued in June 2017

The CASs, to be published in the [CPA Canada Handbook – Assurance](#) in June 2017, are effective for all audits for periods ending on or after December 15, 2018 with earlier application permitted.

The IAASB's effective date for these standards was for periods ending on or after December 15, 2016. Accordingly, auditors conducting audits of financial statements in accordance with the CASs for periods ending on or after December 15, 2016 should not represent compliance with the ISAs unless they have complied with the respective ISAs issued by the IAASB.

Factors the AASB considered in approving the standards now

In approving the standards, the AASB considered a number of factors, such as the following:

- There is strong support from Canadian stakeholders for the continued adoption of ISAs as CASs.
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- The degree of integration of the broad range of changes arising from the auditor reporting and other standards throughout the CASs makes deferral of adoption of the ISAs increasingly problematic for auditors. This degree of integration also threatens the adoption of future ISAs currently under development by the IAASB.
- These new and revised standards are expected to enhance audit quality.
- There are circumstances when an auditor is engaged to conduct an audit in accordance with both the CASs and the ISAs and wishes to issue one auditor's report, or when a Canadian entity wants their auditor's report to be comparable with auditor's reports for global competitors where the audit is conducted in accordance with the ISAs.
- Stakeholders wanted the ability to communicate key audit matters in their auditor's reports or to require such reporting within Canadian generally accepted auditing standards.

Key audit matter reporting – a Canadian approach

A significant component of the auditor reporting ISAs is a requirement that auditors of listed entities communicate key audit matters — those matters that, in the auditor's judgment, were of most significance in the audit.

Canadian stakeholders made it clear in a variety of interactions that changes to auditor reporting standards need to recognize that the Canadian and U.S. capital markets are closely integrated. They emphasized that if key audit matter reporting requirements and the entities to which they would apply, are significantly different between Canada and the U.S. this could create confusion in the marketplace and potentially affect comparability of information across the North American capital markets.

The U.S. Public Company Accounting Oversight Board has not finalized its auditor reporting standards, including with respect to a key audit matter reporting concept. As a result, the AASB believes that it is not appropriate at this time to mandate key audit matter reporting for listed entities in Canada.

The final CASs, as adopted, do not contain a key audit matter reporting requirement at this time. They do allow for law or regulation to require reporting of key audit matters and for the auditor to decide to do so.

While there are other differences between the CASs and U.S. reporting standards, the AASB understands, based upon discussions with stakeholders, such differences do not create the same sensitivities as key audit matter reporting.

The AASB support of effective implementation

Implementing these new standards will result in new auditor's reports for all audits and involve auditors, management and audit committees.

We are working with CPA Canada and other groups to drive the effective implementation of the new standards through a broad range of communications, tools and guidance materials for stakeholders.

Over the next month, look for a number of [Audit and Assurance alerts](#) from CPA Canada discussing key features of the changes and the release of a web portal devoted exclusively to the topic of implementing auditor reporting.

Webinars and other publications will be issued throughout the remainder of the year, including an update expected in December incorporating the changes to the new auditor's report into a revised reporting guide, "[Reporting Implications of New Auditing and Accounting Standards](#)."

More work remains

The AASB will continue to monitor developments in the U.S. and post-implementation studies in other jurisdictions in considering future expansion of key audit matter reporting to other entities.

We are also working directly with the Australian standard setter to study their experience in implementing the new auditor reporting standards, particularly with respect to smaller listed entities. We will review experience gained in Canada by those who apply key audit matter reporting in accordance with law or regulation, as well as those who apply this reporting voluntarily. The IAASB is also scheduled to conduct a post-implementation review on auditor reporting.

Insights gained from these activities will guide the AASB in future deliberations on this additional level of transparency in the auditor's report.

Want more information?

Stay tuned for more details about the auditor reporting and other standards via the AASB's [CASs webpage](#).

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Chair, Auditing and Assurance Standards Board