

CHANGING REPORTING AND
AUDITING STANDARDS IN
CANADA

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NEW
ACCOUNTING STANDARDS

- INDEPENDENCE
- REPORTING USING ACCOUNTING PRINCIPLES OTHER THAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

CANADA

- CICA - GAAP & GAAS

- CPAB - GAAS
(public companies)

- Commencing in 3 years going to IASB – (International GAAP)

- The entire Canadian GAAP is currently under review

IMPACT ON NON-PROFITS

- Publicly accountable entities includes non-profit entities
 - Co-operatives
 - Not-for-profit organizations
 - Pension plans
 - Public sector bodies

CICA HANDBOOK Section 5751

- Communications with audit clients
 - Auditor receives as much information from audit committee as possible
 - Auditor informs audit committee about how much non-audit services rendered in year

AUDITOR RESPONSIBILITIES

- Communicate roles to Audit Committee
- Ensure GAAS
- Identify major risk areas
- Understand internal control systems

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AUDIT APPROACH

- Risk identification
- Determine materiality
- Communication with audit committee
- GAAP & GAAS

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MATTERS ARISING

- Communicate
 - Fraud
 - Significant weaknesses in internal controls
 - Unusual related party transactions
 - Significant problems or delay in audit

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Communicating Independence

- Financial interest
- Personal or business relationship
- Other services – consulting services

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Responsibilities re: Independence

- Watch all year long, not just year end
- Reporting entity and auditor responsible
- Auditor should meet Board annually without management present
- Auditor must report all items, even if conclusion is no conflict present

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Auditor as Manager

- Listed vs Non Listed entities
 - Listed
 - Reporting entity (designated)
 - Public company
 - High profile non-profit
 - Non Listed
 - All others
- Bookkeeping
 - Listed - NO
 - Non Listed - YES

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Auditor as Manager

Standard of Care

May not prepare a source document or originating data

May not "Participate in Management"

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Auditor as Manager

■ NO's

- Sign a cheque
- Prepare a payroll
- Decide on investments

■ MAYBE's

- Prepare a cheque
- Prepare a monthly financial statement
- Prepare a bank reconciliation

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CICA HANDBOOK Section 5600

Effective all auditor's reports on or after
October 1, 2003

Purpose

- To limit circumstance where GAAP not used
- To set guidelines where GAAP not used

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ADBA

Appropriately disclosed basis of accounting

- Previously ADBA was accepted standard
- NPHC's used ADBA to set up variety of different reserves and charge costs to those reserves.

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Problems with ADBA

- No guidelines only general guidance
- No comparability between non profits - every non-profit had different accounting policies
- Reader had to study accounting policies in Note 1 before understanding statements
- Entity chose accounting principles used

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History of ADBA

- Up to 2000 it was the standard
- 2000 CICA proposed to remove ADBA and force all entities to use GAAP
- Resulted in an outcry
- Second attempt to propose to allow ADBA but so limited it could not be used
- Resulted in a second outcry
- PYC prepared presentation to CICA illustrating why ADBA needed at least by housing co-op sector

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History of ADBA II

- CICA presented a third attempt at setting guidelines for ADBA
- No outcry therefore accepted

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The theory of 5600

- Restrict use of ADBA to
 - required by contractual agreement
 - Required by regulatory or legislative requirements
- Comparability important and 5600 reduces statements that are not comparable
- Reader of ADBA statements warned that statements not for them unless they are specified user

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Alternatives to 5600

Choices are:

- ADBA
- GAAP
- Both – ie 2 sets of financial statements and 2 auditors reports

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What 5600 looks like

- Opinion refers to accounting principles disclosed in Note 1 not GAAP
- Fourth paragraph warns users not to use if not specified user
- Specified user either disclosed in fourth paragraph or Note 1

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Implication of 5600

- More power into the hands of the funders
- Changes potential strategic decisions by groups based on effect of 5600 on funding

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All NPHC's

- Funder mandated reserves only
- Can no longer allocate from income statement specific NPHC generated reserves.
- Specific purpose reserves can still be set up but:
 - No more allocations from income statement
 - No more interest in the reserve
 - No more expenditures directly to the reserve

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All NPHC's II

- Warning in fourth paragraph warns other than specified users not to use financial statements

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Ontario Municipally Funded NPHC's

- Program calls for 50% of any annual surplus to be paid to funder
 - With ADBA used to expense capital assets
 - Now must capitalize and amortize or use service manager non GAAP alternative
 - charge to replacement reserve
 - Incentive to capitalize and amortize to reduce surplus repayments

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SHB No 5

- Purpose to give auditors a reporting format that complies with GAAS
- CICA handbook changed last year – new Section 9100 Reports on Specified Procedures
- CICA issued instructions to all chartered accountants to get into line & stop issuing non compliant reports

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**ACCOUNTANT'S REPORT ON APPLYING SPECIFIED AUDITING
PROCEDURES IN RESPECT OF THE ANNUAL INFORMATION RETURN**

To the Service Manager:

As specifically agreed, I have performed the auditing procedures described in Appendix A, to assist the Service Manager in assessing _____ (name of corporation)'s ("the Corporation") compliance with the Social Housing Reform Act and regulations and the information in the Annual Information Return for the year ended (date). This engagement to apply agreed-upon auditing procedures was performed in accordance with standards established by the Canadian Institute of Chartered Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, I make no representation regarding the sufficiency of the procedures described in Appendix A either for the purpose for which this report has been requested or for any other purpose.

The results of my procedures are documented in Appendix A. My audit of the Corporation's financial statements for the year ended (date) was not directed to the information in the Annual Information Return. The procedures in Appendix A do not constitute an audit of the Annual Information Return and, therefore, I express no opinion on the information in the Annual Information Return for the year ended (date). Had I performed additional procedures, other matters might have come to my attention that I would have reported to you.

This letter is for use solely by the Service Manager in assessing the Corporation's compliance with the Social Housing Reform Act and regulations and the information in the Annual Information Return, and is not intended to be and should not be used by anyone else or for any other purpose.

CHARTERED ACCOUNTANT
(City), Canada
(Date)

**Application of Results
from this workshop I**

- As a Board member ensure you have received and read the independence letter from your auditor.
- Each year review all communications from your auditor:
 - Audit report
 - Independence letter
 - Management letter
 - Any other communications through the year

**Application of Results
from this workshop II**

- Ontario municipal NPHC's
 - Get familiar with differences between capital expenditure and operating expense.
 - Start to think strategically about whether to charge an item against the reserve or capitalize and amortize against future income.



PYC website

www.pyc.net

Available

- Section 5751 CICA Handbook (pdf)
- Section 5600 CICA Handbook (pdf)
- Section 9100 CICA Handbook (pdf)
- Newsletter on "Capital vs Operating"
- Newsletter on "5600"
- Lots of other interesting newsletters

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