



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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March 12, 2008

Mr. Greg Shields, CA  
Director, Auditing and Assurance Standards  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2

Re: **Exposure Draft (ED), Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures**

Dear Mr. Shields:

CPAB is pleased to comment on the four components of this ED.

***Long term investments***

We have no comments on this component of the ED.

**Inventory**

**Summary of significant changes**

We do not agree with the statement in the Summary of Significant Changes that Section 6030 “does not mandate the performance of any particular procedures regarding valuation”. In fact, 6030.09(a), (d) and (e) all deal with valuation, or at least more than just quantities, and none are covered in proposed CAS501. We accept that the IAASB has chosen in this ED (and its predecessor) to only deal with quantities. However, we believe the AASB should not automatically jettison italicized, or any another, language just because it is out of scope for the IAASB. We believe the AASB must carefully consider whether the loss of these requirements represents a threat to audit quality in Canada, and if it does, add supplemental material to this CAS or elsewhere.

## **General comment**

In other respects we have no comments on the inventory section of this ED, other than the following comment we intend to make to the IAASB concerning paragraph A11:

*Impracticality to attend due to threats to the well-being of the auditor is very rare, and would raise broader issues. "General inconvenience", on the other hand could be interpreted narrowly or broadly. It would be helpful to be more specific. In particular, the guidance could indicate that cost is not a sufficient ground for not attending a material physical inventory.*

## **Litigation and claims**

### **General comment**

There are so many particular Canadian circumstances surrounding this procedure, including those mentioned in the *Summary of significant changes to current Canadian standards*, that it is inappropriate to attempt to adopt this part of ISA 501 at this time. One fundamental issue that is not referred to in the summary relates to inclusion in ISA 501 of the concept that the external legal counsel is unlikely to respond. In Canada that is not an issue and it is therefore misleading to raise it. Under the Joint Policy Statement Legal counsel is required to respond.

We recommend that Handbook Section 6560 and the related Joint Policy statement remain in force in Canada until such time as it can be replaced with one that is more consistent with ISA 501. In no circumstances would it be appropriate to adopt ISA 501 in Canada without significant amendments.

### **Specific comments**

These comments relate to the most important issues if Canada were to adopt the ISA as exposed. See general comments regarding overall inapplicability to Canada.

Ref.	Comment
9 and A17	<p>We intend to respond to the IAASB as follows concerning paragraph 9 and related A17:</p> <p>There is no logical reason to distinguish between the audit procedures in paragraph 9 and those in paragraph A17. Reviewing legal expense accounts and related source documentation, and consideration of other information obtained during the risk assessment phase, should be incorporated into paragraph 9.</p>
6560.07	<p>Paragraph 6560.07 states that an enquiry letter, prepared by the client, should be sent by the auditor to each law firm identified as handling claims that are outstanding or possible claims, unless the auditor is satisfied that such matters are:</p> <ul style="list-style-type: none"><li>(a) routine matters of an identified type; or</li><li>(b) immaterial in the aggregate.</li></ul> <p>The equivalent in ISA 501.9 and 10 falls very significantly below that requirement. This concept is also incorporated into the Joint Policy Statement.</p>
Item (i), Summary of significant differences	<p>It would be irresponsible to drop the existing requirement to obtain consent of legal counsel before quoting or referring to his or her response letter. Auditors are, of course, bound by the provincial rules of conduct concerning confidentiality, but communications among auditors, clients and legal counsel are fraught with very special problems, as is evidenced by the need for a Joint Policy statement and a separate Section 6560. The rules of conduct say nothing about obtaining consent from legal counsel in this or any other situation.</p>

## Segment information

CICA Handbook 1701.10 defines operating segment as follows:

An operating segment is a component of an enterprise:

- a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same enterprise),
- b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- c) for which discrete financial information is available.

AuG-26 requires the auditor to consider audit evidence in relation to the chief operating decision maker's use of segment information. This information is lost in CAS 501. So long as Handbook Section 1701 is in force, or its replacement contains a similar definition. AuG-26 should remain in force for this reason and to avoid dropping the current guidance referred to in the four bullets in the *Summary of Significant Changes*.

We intend to make several further comments to the IAASB, but they relate to improvements in drafting.

If you wish to discuss any of the above comments please contact David Selley at CPAB (416) 913-8260 Extension 4153.

Yours truly,



Keith Boocock  
Chief Executive Officer