Office of the Auditor General of Ontario

May 2020

Accounting and Assurance Standards Update

Helping You to Keep Up with Changing Accounting and Assurance Standards

The Office of the Auditor General of Ontario is pleased to provide this newsletter to make it easier for you to stay informed about changes to the CPA Canada Handbook that might affect your organization.

The COVID-19 pandemic has unique financial reporting implications. In this issue, we present accounting considerations for the public sector.

We continue to focus on the most relevant accounting and assurance standard changes prepared in an easy-to-read reference format.

We track four key areas of interest: Public Sector Accounting Standards (PSAS); PSAS for Government Not-for-Profit Organizations; International Financial Reporting Standards (IFRS); and Assurance Standards. This edition contains updates to PSAS, IFRS and Assurance Standards. We encourage Government Not-for-Profit Organizations to review PSAS updates as these may also apply.

We hope you will find this newsletter useful. Please share your thoughts about it with Rebecca Yosipovich, Director, Professional Practices, and David Catarino, Director, Accounting Centre of Excellence, so we can make future editions even better.

In This Edition

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Financial Reporting Implications of the COVID-19 Pandemic

All entities will need to consider the impact of the COVID-19 pandemic on financial reporting this year. The unprecedented nature of the COVID-19 pandemic can result in unique financial risks and uncertainties. Early identification and analysis of the impact of the pandemic on financial reporting is important.

The nature and extent of the impact will vary from entity to entity, depending on a number of factors, including the nature of the entity's operations and reporting deadlines as well as the applicable financial reporting framework. Below is a list of the more common issues that may be encountered in the public sector.

Covid-19 Payments and Revenues

Those entities that have made or committed to special transfers or payments in the future as a result of COVID-19 will need to ensure that related expenditures are recorded in the appropriate period. PS 3410, *Government Transfers*, and PS 3200, *Liabilities*, should be consulted to ensure that the financial statements reflect the correct amounts. Similarly, entities that receive special payments related to COVID-19 should review the guidance in PS 3410 to determine the appropriate period to record these revenues.

Pensions

Entities that report pension balances will need to consider the impact of volatility in the financial markets brought on by the pandemic. A decline in the market value of the investments held by the pension may have a significant impact on the reported pension balance. Entities with a March 31, 2020 fiscal year end date may also need to consider updating their valuation of the pension's investments if the valuation was performed prior to March 31st.

Impairment

Impairment of assets may also need to be considered. Additional attention will be needed in the area of collectability. There is an increased risk that counterparties will experience financial difficulties as a direct result of the pandemic and may defer or make partial payments. The carrying amount of non-financial assets, such as property, plant and equipment, intangible assets and right-of-use assets may be impacted by changes to future cash flows, especially for entities reporting under IFRS standards.

Tax Revenues

The pandemic may impact the tax system in multiple ways. Tax receivables may need to be assessed for collectability. Tax relief or incentives should be classified as either tax concessions or transfers through the tax system and accounted for in accordance with PS 3510, *Tax Revenues*. Uncertainties in the current environment may require the use of additional estimates in this area.

Subsequent Events

The economic impact of the coronavirus is evolving and can be substantial. This year, there is a greater chance that significant events occurring after the financial reporting date will have a financial statement impact. Entities should consider the guidance in PS 2400, *Subsequent Events*, or IAS 10, *Events After the Reporting Period*, as appropriate, to determine if there is an impact on reported amounts and financial statement disclosures.

Going Concern

While the pandemic has disrupted normal operations for many, it is not expected that going concern will be a significant issue within the public sector.

Measurement Uncertainty and Estimates

As a result of the uncertainty associated with the pandemic, entities are likely to face challenges related to selecting appropriate assumptions and developing reliable estimates. Additional disclosures may be needed in areas such as measurement uncertainties, judgments and estimates.

This Edition at a Glance

Standards Digest

The following future accounting and assurance standards are detailed in this edition:

Page	Standard	Key Takeaways and Guidance	Effective Date*
8	PS 3400 - Revenue	• New standard issued in June 2018. • Recognition, measurement and presentation of revenues in the public sector that are not government transfers or taxes. • Two categories of public sector revenues: exchange transactions and unilateral (non-exchange) transactions with different recognition criteria.	April 1, 2022
8	PS 3280 - Asset Retirement Obligations	• New standard issued in August 2018 • Recognition and measurement of obligations that arise from permanent removal of tangible capital assets from service.	April 1, 2021
9	PS 3450 - Financial Instruments	• Part of a new suite of standards (PS 3450, PS 2601, PS 1201). • Recognition, measurement, presentation and disclosure of financial instruments, including derivatives. • All financial instruments to be measured in one of two categories: (i) fair value; or (ii) cost or amortized cost.	April 1, 2021
9	PS 2601 - Foreign Currency	• Part of a new suite of standards (PS 3450, PS 2601, PS 1201). • Replaces the guidance in section PS 2600, *Foreign Currency Translation*. • Exchange gains/losses on monetary assets and liabilities prior to settlement are recorded in the statement of remeasurement gains and losses. • Upon settlement, cumulative unrealized foreign exchange gains/losses are reclassified to the statement of operations. • Eliminates hedge accounting for foreign currencies.	April 1, 2021
10	PS 1201 - Financial Statement Presentation	• Part of a new suite of standards (PS 3450, PS 2601, PS 1201). • Replaces PS 1200, *Financial Statement Presentation*. • Introduces statement of remeasurement gains and losses. • Remeasurement gains and losses arise from (i) foreign exchange gains and losses on items in the amortized cost category; (ii) unrealized gains and losses on financial instruments that measured at fair value. • Accumulated remeasurement gains or losses at the end of the period are reported as a separate component of accumulated surplus or deficit.	April 1, 2021

*The effective date is for financial years beginning on or after the date shown.

Page	Standard	Key Takeaways and Guidance	Effective Date*
10	PS 3041 - Portfolio Investments	• New standard replacing PS 3040, Temporary Investments. • Portfolio investments measured in accordance with PS 3450, Financial Instruments unless they have concessionary terms. • Losses in the value of a portfolio investment that are not a temporary decline should be recognized and recorded in the statement of operations.	April 1, 2021
11	2018-2019 Annual Improvements to Public Sector Accounting Standards	• Title of PS 3060 was changed from "Government Partnerships" to "Interests in Partnerships". • Definition of a partnership was amended to include a partnership between two or more government organizations under the same government reporting entity. • Amendments to various standards to reflect the recognition of government components a separate category within the government reporting entity; previously, government components (e.g., departments) were included in the term "government organizations". • Removal of references to PSAB's due process for standard-setting as this is already included in Due Process Manual.	April 1, 2020
12	IFRS 16 - Leases	• Replaces IAS 17, IFRIC 14, SIC-15, and SIC-27. • Requires a lessee to recognize a lease obligation and a corresponding right-of-use asset at the inception of most leases (two exception conditions). • Lease obligations are measured at the present value of future lease payments at lease inception. • Right-of-use asset is recognized at the value of the lease obligation at inception and amortized in a rational matter over its useful life.	January 1, 2019
12	IFRS 17 - Insurance Contracts	• Replaces IFRS 4, *Insurance Contracts*. • Profit from insurance contracts is initially recorded as a liability called the contractual service margin. • Contractual service margin is recognized over the insurance contract's coverage period. • Requires entities to update actuarial assumptions and estimates in measuring insurance contracts in subsequent reporting periods. • Accelerates the recognition of losses on insurance contracts that are expected to be onerous.	January 1, 2023
13	Amendments to IFRS 3 - Business Combinations	• Amendment to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. • IASB issued Definition of a Business (Amendments to IFRS 3); guidance is designed to make it easier for entities to decide whether they have acquired a business or a group of assets.	Various (see details on page 13)

*The effective date is for financial years beginning on or after the date shown.

Page	Standard	Key Takeaways and Guidance	Effective Date*
13	Amendment to IFRS 9 - Financial Instruments	• Amendments to IFRS 9, IAS 39 and IFRS 7 designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as the interbank lending rate (IBOR). • Modification to certain specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform • Requirement for companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.	January 1, 2020
13	Amendment to IFRS 11 - Joint Arrangements	• Amendment to clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.	January 1, 2019
13	Amendment to IAS 1 - Presentation of Financial Statements	• Narrow-scope amendment. • Clarifies the concept of materiality in IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.	January 1, 2020
14	Amendment to IAS 19 - Employment Benefits	• Narrow-scope amendment • If there is a curtailment, settlement or amendment of a defined benefit plan, the current service cost and the net interest for the period after the date of remeasurement must be determined using the updated assumptions used for the remeasurement.	January 1, 2019
14	Amendment to IAS 23 - Borrowing Costs	• Amendment to clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the borrowing becomes part of the entity's general borrowings when calculating the capitalization rate.	January 1, 2019
15	CAS 701 - Communicating Key Audit Matters in the Independent Auditor's Report	• Introduces new section in the auditor's report called Key Audit Matters (KAM). • KAM are those matters that, in the auditor's professional judgment, were of most significance to the audit. • KAM is required for the audit of all listed entities. • Listed entities are entities whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.	Various (see details on page 14)

*The effective date is for financial years beginning on or after the date shown.

Page	Standard	Key Takeaways and Guidance	Effective Date*
15	CAS 540 - Auditing Accounting Estimates and Related Disclosures	• Establish more robust requirements and detailed guidance in relation to accounting estimates and related disclosures.	Audits of financial statements for periods beginning on or after December 15, 2019
16	CSAE 3530 - Attestation Engagements to Report on Compliance	• Addresses special considerations in relation to attestation engagement for a report on management's explicit written statement of an entity's compliance with agreements, specified authorities, or a provision thereof. • Applies to reasonable and limited assurance attestation engagements • Subject matter may be financial or non-financial in nature.	Practitioner's reports dated on or after April 1, 2019
16	CSAE 3531 - Direct Engagements to Report on Compliance	• Addresses specials considerations in relation to direct engagements for a report on an entity's compliance with agreements, specified authorities, or a provision thereof. • Applies to reasonable and limited assurance engagements.	Practitioner's reports dated on or after April 1, 2019
16	CSRS 4400 - Agreed-upon Procedures Engagements	• Agreed-upon procedures are procedures that are agreed to by the practitioner and the engaging party (and other parties, if applicable) that leads to a report of factual findings. Unlike an audit or a review, agreed-upon procedures do not provide any level of assurance. • Updates and replaces existing Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*. • Expands on the scope of Section 9100 by including non-financial subject matters. • Requires additional areas in the agreed-upon procedures report.	Agreed-upon procedures engagements for which the terms of engagement are agreed to on or after January 1, 2022
16	Section 7170 - Auditor's Consent to the Use of the Auditor's Report in Connection with a Designated Document	• Deals with an auditor's responsibilities in responding to requests to consent to the use of the auditor's report in connection with a designated document. • Replaces Section 7170, *Auditor's Consent to the Use of the Auditor's Report included in a Business Acquisition Report* and Section 7500, *Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents*.	Consents issued on or after June 1, 2019

*The effective date is for financial years beginning on or after the date shown.

Accounting Standards Adoption Timeline

The following timeline shows the effective dates for the future accounting and assurance standards outlined in this edition of the Accounting Standards Newsletter.

2019	IFRS 16	Leases	January 1
	IAS 19	Employment Benefits (Amendment)	January 1
	IAS 23	Borrowing Costs (Amendment)	January 1
	IFRS 3	Business Combinations (Amendment)	January 1
	IFRS 11	Joint Arrangements (Amendment)	January 1
	CSAE 3530	Attestation Engagements to Report on Compliance	April 1
	CSAE 3531	Direct Engagements to Report on Compliance	April 1
	Section 7170	Auditor's Consent to the Use of the Auditor's Report in Connection with a Designated Document	June 1
	CAS 540	Auditing Accounting Estimates and Related Disclosures	December 15
2020	IAS 1	Presentation of Financial Statements (Amendment)	January 1
	IFRS 9	Financial Instruments (Amendment)	January 1
	2018-2019	Annual Improvements to Public Sector Accounting Standards	April 1
2021	PS 1201	Financial Statement Presentation	April 1
	PS 2601	Foreign Currency Translation	April 1
	PS 3041	Portfolio Investments	April 1
	PS 3280	Asset Retirement Obligations	April 1
	PS 3450	Financial Instruments	April 1
2022	CSRS 4400	Agreed-upon Procedures Engagements	January 1
	PS 3400	Revenue	April 1
	CAS 701	Communicating Key Audit Matters in the Independent Auditor's Report	December 15
2023	IFRS 17	Insurance Contracts	January 1

Public Sector Accounting Standards (PSAS)

PS 3400 - Revenue

Effective Date:* April 1, 2022
Early Adoption: Permitted

The Public Sector Accounting Board (PSAB) approved Section PS 3400 in June 2018. The new standard provides guidance on the recognition, measurement and presentation of revenues that arise in the public sector, but are outside the scope of the existing standards that address revenues, PS 3410, *Government Transfers* and PS 3510, *Tax Revenues*.

Section PS 3400 separates public sector revenues into two categories: exchange transactions and unilateral (non-exchange) transactions. The distinguishing feature is the existence of a performance obligation, an enforceable promise to provide a good or service to a payor. Exchange transactions are characterized by one or more performance obligations. By contrast, unilateral transactions, such as fines and penalties, are not associated with a performance obligation.

Revenues from an exchange transaction are recognized as or when the public-sector entity satisfies the performance obligation. Performance obligations may be satisfied at a point in time or over a period of time, depending on which method best depicts the transfer or goods or services to the payor.

Unilateral revenues are recognized when there is the authority and a past event that gives rise to a claim of economic resources.

PS 3280 - Asset Retirement Obligations

Effective Date:* April 1, 2021
Early Adoption: Permitted

Section PS 3280 was issued in August 2018 to provide guidance on the recognition and measurement of obligations that arise from asset retirement activities. Asset retirement is the permanent removal of a tangible capital asset from service.

A retirement obligation is recognized as a liability when:

- (i) there is a legal obligation to incur costs to permanently remove a tangible capital asset from service. Legal obligations can arise from legislation, contracts and promissory estoppel;
- (ii) the past transaction giving rise to the liability, such as acquisition, construction, development or normal use, has already occurred;
- (iii) there is an expectation that future economic benefits will be given up; and
- (iv) a reasonable estimate of the liability can be made. The estimate includes costs directly attributable to the retirement activities, including post-retirement operation, maintenance and monitoring.

Upon recognition of the obligation, the carrying amount of the related tangible capital asset is increased by the same amount as the liability. The cost included in the carrying amount of the tangible capital asset is allocated to expense in a rational and systematic manner (e.g., amortization over the remaining useful life of the related tangible capital asset).

If the related asset is no longer in productive use, or if the related asset is not recognized for accounting purposes, the related retirement costs would be recorded as an expense.

PSAB withdrew the guidance on solid waste landfill closure and post-closure liability (Section PS 3270) following the issuance of this standard. Section PS 3270 remains effective until PS 3280 is adopted.

*The effective date is for financial years beginning on or after the date shown.

Public Sector Accounting Standards (PSAS)

PS 3450 - Financial Instruments

Effective Date:* April 1, 2021
Early Adoption: Permitted
(PS 3450, PS 2601 and PS 1201 are to be adopted together)

For governments and government entities that did not apply the *CPA Canada Handbook – Accounting* prior to adoption of the *CPA Canada Public Sector Accounting Handbook.*

Section PS 3450 provides guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives.

The new standard introduces the requirement to measure all financial instruments in one of two categories:

(i) fair value; or

(ii) cost or amortized cost.

Under Section PS 3450, investments in equity instruments that are quoted in an active market and derivatives are measured at fair value.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date has since been extended three times (April 1, 2016, April 1, 2019, and the current effective date of April 1, 2021).

PS 2601 - Foreign Currency Translation

Effective Date:* April 1, 2021
Early Adoption: Permitted
(PS 3450, PS 2601 and PS 1201 are to be adopted together)

For governments and government entities that did not apply the *CPA Canada Handbook – Accounting* prior to adoption of the *CPA Canada Public Sector Accounting Handbook.*

Section PS 2601 replaces the guidance in Section PS 2600, *Foreign Currency Translation*. Under Section PS 2601, exchange gains and losses arising on monetary assets and liabilities prior to settlement are recorded in the statement of remeasurement gains and losses. Once the foreign currency denominated item is settled, the cumulative amount of unrealized foreign exchange gain or losses previously recognized is reclassified to the statement of operations.

The introduction of PS 2601 eliminates the practice of deferring unrealized gains and losses arising from foreign currency translation and the previous guidance surrounding hedge accounting of foreign currencies.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date has since been extended three times (April 1, 2016, April 1, 2019, and the current effective date of April 1, 2021).

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Public Sector Accounting Standards (PSAS)

PS 1201 - Financial Statement Presentation

Effective Date:* April 1, 2021
Early Adoption: Permitted
(PS 3450, PS 2601 and PS 1201 are to be adopted together)

For governments and government entities that did not apply the *CPA Canada Handbook – Accounting* prior to adoption of the *CPA Canada Public Sector Accounting Handbook.*

Section PS 1201 replaces PS 1200, *Financial Statement Presentation*.

Section PS 1201 introduces the statement of remeasurement for gains and losses. Remeasurement gains and losses arise from:

(i) exchange gains and losses on items in the amortized cost category denominated in a foreign currency; and

(ii) unrealized gains and losses on financial instruments that are measured at fair value.

The accumulated remeasurement gains or losses at the end of the period are reported in the statement of financial position as a separate component of accumulated surplus or deficit.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date has since been extended three times (April 1, 2016, April 1, 2019, and the current effective date of April 1, 2021).

PS 3041 - Portfolio Investments

Effective Date:* April 1, 2021
Early Adoption: Permitted
(Adopted at the same time PS 3450, PS 2601 and PS 1201 are adopted)

For governments and government entities that did not apply the *CPA Canada Handbook – Accounting* prior to adoption of the *CPA Canada Public Sector Accounting Handbook.*

PS 3041 replaces Section PS 3040, *Temporary Investments*. PS 3041 states that portfolio investments are measured in accordance with PS 3450, *Financial Instruments* unless they have concessionary terms such as little or no return on the government investment. Losses in the value of a portfolio investment that are not a temporary decline should be recognized and recorded in the statement of operations.

This standard was originally approved by PSAB for fiscal years beginning on or after April 1, 2015. The effective date has since been extended three times (April 1, 2016, April 1, 2019, and the current effective date of April 1, 2021).

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2018-2019 Annual Improvements to Public Sector Accounting Standards

Effective Date:* April 1, 2020

In September 2019, PSAB issued the 2018-2019 Annual Improvements to correct minor inconsistencies or areas requiring clarification in the Public Sector Accounting Handbook.

The title of PS 3060 was changed from "Government Partnerships" to "Interests in Partnerships". The definition of a partnership was amended to include a partnership between two or more government organizations under the same government reporting entity.

Amendments were made to various standards relating to the introduction of the government-component category. Previously, government components (such as departments), were included as part of the term "government organizations". The amendments reflect the recognition of government components as a separate category within the government reporting entity.

The amendments also include the removal of references to the due process that PSAB must follow in its standard-setting process. PSAB's due process is outlined separately in its Due Process Manual.

*The effective date is for financial years beginning on or after the date shown.

International Financial Reporting Standards (IFRS)

IFRS 16 - Leases

Effective Date:* January 1, 2019
Early Adoption: Permitted
(with adoption of IFRS 15)

The IASB issued IFRS 16 in January 2016, replacing IAS 17, *Leases*. IFRS 16 requires a lessee to recognize a lease obligation and a corresponding right-of-use asset at the inception of most leases. This approach differs considerably from the previous guidance in IFRS 16 that distinguished between financing and operating leases and required a lease obligation be recorded only for those leases that met the criteria of a financing lease.

There are two circumstances in which lessees may elect to not recognize a lease liability and right-of-use asset: if the lease has a duration of 12 months or less from the initial start date, or if the leased asset is considered low value.

Lease obligations are measured at the present value of future lease payments at the inception of the lease. The right-of-use asset is initially recognized at the value of the lease obligation at inception, adjusted for certain lease-related costs. Subsequently, the right-of-use asset is amortized in a rational matter over its useful life.

IFRS 16 also replaces IFRIC 4, *Determining Whether an Arrangement Contains a Lease*; SIC-15, *Operating Leases – Incentives* and SIC-27, *Evaluating the Substance of Transactions in the Legal Form of a Lease*.

IFRS 17 - Insurance Contracts

Effective Date:* January 1, 2023
Early Adoption: Permitted
(with adoption of IFRS 15 and IFRS 9)

IFRS 17 was issued in May 2017 to replace IFRS 4, *Insurance Contracts*. Under IFRS 4, entities were permitted to continue to use accounting policies for insurance contracts that were in place prior to the entity's adoption of IFRS. IFRS 17 increases comparability across reporting entities by standardizing accounting for insurance contracts.

Under IFRS 17, profit from insurance contracts is initially recorded as a liability called the contractual service margin. The contractual service margin is recognized over the insurance contract's coverage period.

IFRS 17 also requires entities to update actuarial assumptions and estimates in measuring insurance contracts in subsequent reporting periods. It also accelerates the recognition of losses on insurance contracts that are expected to be onerous.

In March 2020, the IASB agreed to defer the effective date of IFRS 17 to fiscal years beginning on or after January 1, 2023. The IASB also announced that it will extend the exemption currently in place for some insurers regarding the application of IFRS 9 Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time.

*The effective date is for financial years beginning on or after the date shown.

International Financial Reporting Standards (IFRS)

Amendments to IFRS 3 - Business Combinations

Effective Date:* Various
(as indicated in summary)
Early Adoption: Permitted

In December 2017, the IASB issued an amendment to IFRS 3 to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. This amendment is effective for annual reporting periods beginning on or after January 1, 2019.

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)*. The guidance is designed to make it easier for entities to decide whether they have acquired a business or merely a group of assets. This amendment is effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first reporting period beginning on or after January 1, 2020.

Amendment to IFRS 9 - Financial Instruments

Effective Date:* January 1, 2020
Early Adoption: Permitted

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as the interbank lending rate (IBOR). These amendements (i) modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform; and (ii) require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendment to IFRS 11 - Joint Arrangements

Effective Date:* January 1, 2019
Early Adoption: Permitted

In December 2017, the IASB issued an amendment to IFRS 11 to clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendment to IAS 1 - Presentation of Financial Statements

Effective Date:* January 1, 2020
Early Adoption: Permitted

Materiality is an important concept in helping financial statements preparers determine what information should be presented in the financial statements. In October 2018, as part of its *Better Communication in Financial Reporting* project, the IASB issued amendments to IAS 1 and IAS 8 to clarify the concept of materiality.

*The effective date is for financial years beginning on or after the date shown.

International Financial Reporting Standards (IFRS)

Amendment to IAS 19 - Employment Benefits

Effective Date:* January 1, 2019
Early Adoption: Permitted

The IASB issued a narrow-scope amendment to IAS 19, *Employment Benefits*, in February 2018. If there is a curtailment, settlement or amendment of a defined benefit plan, the current service cost and the net interest for the period after the remeasurement must be determined using the updated assumptions used for the remeasurement. Any changes to the asset ceiling amount arising from a plan amendment, curtailment or settlement are recognized through other comprehensive income (or loss).

Amendment to IAS 23 - Borrowing Costs

Effective Date:* January 1, 2019
Early Adoption: Permitted

In December 2017, the IASB issued an amendment to IAS 23 to clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

*The effective date is for financial years beginning on or after the date shown.

CAS 701 - Communicating Key Audit Matters in the Independent Auditor's Report

Effective Date: Various (as indicated in summary)
Early Adoption: Permitted

In June 2017, the AASB issued CAS 701 to provide guidance on the implementation of a new section in the auditor's report called Key Audit Matters. Key Audit Matters (KAM) are those matters that, in the auditor's professional judgment, were of most significance to the audit. The goal of KAM is to provide greater transparency to users about the audit.

At the time CAS 701 was issued, the AASB determined that KAM should be included at the auditor's discretion or if required under law or regulation and is effective for audits of financial statements for periods ending on or after December 15, 2018.

In November 2018, the AASB announced that the inclusion of KAM is mandatory for the audit of financial statements of entities listed on the Toronto Stock Exchange (TSX) (other than entities required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*). This will become effective for periods ending on or after December 15, 2020.

In November 2019, the AASB announced that Key Audit Matters are required for the audit of all listed entities effective for periods ending on or after December 15, 2022. Listed entities are entities whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

CAS 540 - Auditing Accounting Estimates and Related Disclosures

Effective Date: Audits of financial statements for periods beginning on or after December 15, 2019
Early Adoption: Permitted

The AASB approved amendments to CAS 540, *Auditing Accounting Estimates and Related Disclosures* in October 2018. The amendments establish more robust requirements and detailed guidance in relation to accounting estimates and related disclosures.

Assurance Standards

CSAE 3530 - Attestation Engagements to Report on Compliance

Effective Date: Practitioner's reports dated on or after April 1, 2019
Early Adoption: Permitted

In March 2018, the AASB issued Canadian Standard on Assurance Engagements (CSAE) 3530 to address specials considerations in applying CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information* in relation to a report on management's explicit written statement of an entity's compliance with agreements, specified authorities, or a provision thereof.

CSAE 3530 applies to reasonable and limited assurance attestation engagements. The subject matter may be financial or non-financial in nature.

CSAE 3530 and 3531 (see next entry) replaces Section 5800, *Special Reports — Introduction*, Section 5815, *Special Reports — Auditor's Reports on Compliance with Agreements, Statutes and Regulations*, Section 8600, *Reviews of Compliance with Agreements and Regulations* and certain paragraphs of PS Section 5300, *Auditing for Compliance with Legislative and Related Authorities in the Public Sector*.

CSAE 3531 - Direct Engagements to Report on Compliance

Effective Date: Practitioner's reports dated on or after April 1, 2019
Early Adoption: Permitted

In March 2018, the AASB issued CSAE 3531 to address specials considerations in applying CSAE 3001, *Direct Engagements* to a report on an entity's compliance with agreements, specified authorities, or a provision thereof. CSAE 3531 applies to reasonable and limited assurance engagements.

CSRS 4400 - Agreed-upon Procedures Engagements

Effective Date: Agreed-upon procedures engagements for which the terms of engagement are agreed to on or after January 1, 2022
Early Adoption: Permitted

CSRS 4400 updates and replaces existing Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*. Agreed-upon procedures are procedures that are agreed to by the practitioner and the engaging party (and other parties, if applicable) that leads to a report of factual findings. Unlike an audit or a review, agreed-upon procedures do not provide any level of assurance.

CSRS 4400 expands on the scope of Section 9100 by including non-financial subject matters. It also requires additional areas in the agreed-upon procedures report.

Section 7170 - Auditor's Consent to the Use of the Auditor's Report in Connection with a Designated Document

Effective Date: Consents issued on or after June 1, 2019
Early Adoption: Permitted

In March 2019, the AASB issued a revised Section 7170 which deals with an auditor's responsibilities in responding to requests to consent to the use of the auditor's report in connection with a designated document.

The new section replaces the previous Section 7170, *Auditor's Consent to the Use of the Auditor's Report included in a Business Acquisition Report* and Section 7500, *Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents*.