**Report to the Audit Committee—User Guide for Completing the Annual Audit Plan**

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**This guide contains instructions for preparing an Annual Audit Plan for the Report to the Audit Committee. Referring to this guide is strongly recommended when using the template to complete the** [**Report to the Audit Committee**](http://cmsprd.oag-bvg.gc.ca/intranet/financial-audits/templates/OAG-RAC_Plan_15213E.docx)**.**

**Note to teams:**

1. To comply with communication requirements of CAS 260, a report based on our template should be prepared and presented to those charged with governance—that is, the Audit Committee or any other person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity—CAS 260.10. If it has been determined that addressing the report to the Audit Committee or, where applicable, the Departmental Audit Committee, is not appropriate, determine the appropriate person(s) within the entity’s governance structure with whom to communicate and modify the template accordingly.
2. The template for the Report to the Audit Committee is intended to be a **guide only**. It has been prepared using plain language and its tone has been chosen accordingly. Any material added should respect that style.
3. This document is formatted using Microsoft Word. For technical issues with the template, please contact desktop publishing.
4. Within the body of this document or the template, text in [brackets] includes instructions or is expected to be modified or deleted by audit teams. When the **Report to the Audit Committee** is completed, there should not be any remaining blue text or text in brackets in the document. All the red and green boxes in the template (indicating which pages are “required’’ and “optional’’) should also be removed from the template when the Report to the Audit Committeeis completed.
5. **Except for the sections of the report required by standards and identified as such, the remaining contents of individual reports should be modified according to the professional judgment** of the audit team to best suit the information needs of audit committee members**.** You know your audience best and should tailor the report accordingly.

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# Office of the Auditor General of Canada

[This section can be added at the team’s discretion]

|  |
| --- |
| The Auditor General of Canada is the auditor of [name of the entity] in accordance with the [Describe reference in legislation]. Our office is funded directly by Parliament, which is important to maintaining our independence from the organizations we audit. |
| As legislative auditor, we assess the organization’s compliance with the specified authority instruments. We report on compliance with the specified authorities directly in our independent auditor’s report.Consult the draft independent auditor’s report in Appendix B. [If the audit team adds Appendix B to this document, then the team should insert a hyperlink to Appendix B.] |
| The engagement team might consult the Auditor General on any sensitive, complex, or difficult issues. |
| We can bring to the attention of Parliament any significant other matters. |
| Our audit mandate, terms of engagement, and responsibilities in relation to the financial statement audit are described in the engagement letter in Appendix A. [If the audit team adds Appendix A to this document, then the team should insert a hyperlink to Appendix A.] |
| Our deliverables:* management letter (if required)
* independent auditor’s report
* results report for the Audit Committee
* post‑audit survey
* [other reports]
 |

# Significant audit risks

These are suggestions that auditors should consider presenting in this section.

For other examples of risks, refer to OAG Audit 5043.3.

## Implementation of [new information technology systems / robotic process automation / technology]

|  |
| --- |
| Risk |
| * The implementation of new financial systems creates a risk to the business, as issues with the usage or transfer of data could affect the data gathered by the systems. This risk to the validity of the underlying data could have a pervasive impact on the financial information.
* The adoption of new technologies such as robotic process automation to replace previously manual controls creates risks to the business [describe risks related to the specific technology].
 |
| Our planned response |
| * Test the transfer of data between systems.
* Test the general computer controls and automated controls to the extent considered appropriate.
* Understand issues arising from implementation and related follow‑up activities, and consider the impact on the reliability of information.
* [Describe procedures required to audit the processes / controls that are affected by the new technology].
 |

## Going concern and debt covenants

|  |
| --- |
| Risk |
| * The entity must ensure compliance with its debt covenants and its self‑sustaining mandate.

Management will prepare a paper determining the entity’s compliance with its debt covenants and its self‑sustaining mandate and identifying key assumptions taken into account in its forecasts. |
| Our planned response |
| * Obtain management’s forecasts and key assumptions, and consider the reasonableness of those assumptions.
* Review and challenge forecasts and sensitivity analysis prepared by management to ensure that they reflect the current environment [describe—for example, include impacts resulting from the disruption to the entity’s supply chain].
* Use [insert] [experts/specialists] to support the audit of management’s forecasts.
* Review debt covenants and management’s assessment of a possible breach of covenants.
* Assess [name of the entity]’s ability to continue as a going concern under the applicable accounting standards.
 |

## Impairment of [goodwill and intangible assets]

|  |
| --- |
| Risk |
| * Under IAS 36, management is required to assess the carrying value of goodwill and intangible assets with indefinite lives annually or when an indicator of impairment exists.
* [Include additional discussion of the risk factors that led to the defined level of risk (for example, significant risk) at a specific and detailed level, as applicable to the engagement.]
 |
| Our planned response |
| * Assess the method, including any models and data used by management in determining the estimate on a [describe expected frequency—for example, quarterly] basis and challenge significant assumptions, remaining skeptical of explanations, considering potential indications of management bias, and obtaining supporting evidence as necessary to ensure that models reflect the current environment, including [describe—for example, continued disruption of the entity’s supply chain].
* Consider whether the models used are appropriate, including checking the related calculations.
* Consider the appropriateness of data used in making the estimate, including the relevance and reliability of data used.
* Discuss significant assumptions underlying cash flow projections with management and understand whether they are achievable.
* Review management’s sensitivity analysis and consider further realistic sensitivity to significant assumptions and underlying cash flows.
* Use valuation experts to support the audit of these balances.
* Assess whether indications of possible management bias exist within the estimate and when considering judgments collectively across all estimates.
* Consider whether management has appropriately understood and addressed estimation uncertainty, and evaluate related financial statement disclosures.
 |

## Measurement of inventories

|  |
| --- |
| Risk |
| * It may be necessary to write down inventories to net realizable value because of reduced movement in inventory, lower commodity prices, or inventory obsolescence resulting from lower‑than‑expected sales.
 |
| Our planned response |
| * Assess management’s analysis to ensure models reflect the current environment, including [describe—for example, continued disruption of the entity’s supply chain and measures taken to control it].
* Discuss significant assumptions, and obtain supporting documentation as necessary.
 |

## Acquisition

|  |
| --- |
| Risk |
| * Acquisitions give rise to additional risks that management and those charged with governance should be aware of. Risks may arise from a weak control environment or less-than-robust accounting at the acquisition entity or from a difference in accounting policies. Judgmental estimates made in the valuation of tangible and intangible assets acquired and the calculation and accounting for pre- and post-acquisition profits also carry a risk of error. Moreover, additional risks and liabilities may arise from the terms of the acquisition contract.
 |
| Our planned response |
| * Read relevant contracts and information, and test accounting entries to supporting documentation, considering the estimates and judgments made by management.
* Audit the expenditure and consider appropriateness of the accounting treatment.
* Audit the fair value calculation of the assets acquired, including the analysis of intangible assets, and assess the valuation methods used.
* Challenge significant assumptions used in the model, remaining skeptical of explanations and considering potential indications of management bias, and understand the impact of different assumptions.
* Consider the appropriateness, relevance, and reliability of data used in making the estimate.
* Use valuation experts to support the audit of these balances.
* Assess whether indications of possible management bias exist within the estimate and when considering judgments collectively across all estimates.
* Understand what management has done to review the control environment of the acquired entity and to align accounting practices. Also consider the impact on our scoping and whether an audit is needed for these entities.
* Consider whether management has appropriately understood and addressed estimation uncertainty and evaluate related financial statement disclosures.
 |

## Physical inventory observations

|  |
| --- |
| Risk |
| * Temporary ceasing of operations, modified operations/workforce, or restricted access may affect our ability to perform physical inventory observations or rely on cycle‑count controls during the period.
 |
| Our planned response |
| * Assess the potential need for roll‑back or roll‑forward procedures.
 |

## Impairment of financial instruments under IFRS 9

|  |
| --- |
| Risk |
| * Forward‑looking information might include additional downside scenarios related to the current environment.
* If credit risk has increased significantly since initial recognition, expected credit loss (ECL) should be measured at the lifetime ECL, rather than the 12‑month ECL, unless the simplified approach is used.
* The budgets, forecasts, and other assumptions used in impairment testing may need to be revised to reflect the economic conditions at the balance sheet date, specifically to address increased risk and uncertainty.
 |
| Our planned response |
| * Assess the ECL models prepared by management and challenge assumptions related to the level of credit risk, amount at risk, and estimated loss to ensure that the models reflect the current environment.
* Consider whether the models used are appropriate, check the related calculations, and obtain supporting documentation as necessary.
 |

## Fair value measurement

|  |
| --- |
| Risk |
| * The volatility of prices on various markets has increased as a result of the current environment. This affects the fair value measurement either directly (if fair value is determined on the basis of market prices) or indirectly (if a valuation technique is based on inputs that are derived from volatile markets).
* A change in the fair value measurement might also affect the sensitivity analysis required for recurring fair value measurements categorized within level 3 of the fair value hierarchy. The number of instruments classified as level 3 may increase.
 |
| Our planned response |
| * [Describe alternate/incremental procedures to be performed given your specific facts/circumstances.]
 |

## Revenue recognition (outside of the risk of fraud in revenue recognition)

|  |
| --- |
| Risk |
| * There could be an effect on the assumptions made by management on the measurement of variable consideration. For example, reduced demand could lead to an increase in expected returns, additional price concessions, reduced volume discounts, penalties for late delivery, or a reduction in the prices that can be obtained by a customer.
 |
| Our planned response |
| * [Describe alternate/incremental procedures to be performed given your specific facts/circumstances.]
 |

## Restructuring

|  |
| --- |
| Risk |
| * [Include client‑specific facts/circumstances here.]
 |
| Our planned response |
| * Review management’s analysis for whether recognition of a restructuring liability represents a present obligation of the balance sheet date in line with the accounting standards and obtain supporting documentation as necessary.
* Verify management’s calculation of the provision.
 |

## Disclosures

|  |
| --- |
| Risk |
| * Additional disclosures may be required in the financial statements regarding the impact of the current environment on your operations.
 |
| Our planned response |
| * Review the financial statements to ensure that appropriate disclosures have been made.
 |

## Internal control

|  |
| --- |
| Risk |
| * Changes to the design and operation of internal controls may be necessary to adapt to the changing environment.
* Changes made to internal control may increase the potential risk of fraud.
* The changing circumstances as personnel shift between working remotely and working at the office may necessitate changes to IT General Controls or other system changes. It may also create new IT risks.
* An increase in remote access to your systems may affect system capacity and cyber security.
 |
| Our planned response |
| * Assess the design and implementation of new or changed relevant controls.
* Evaluate changes to the IT environment, including any new IT risks, and develop a response.
* Consider any ongoing changes to controls and re‑evaluate design and implementation.
* Revise our planned controls reliance strategy for the audit as changes happen.
 |

## Climate-related risks

|  |
| --- |
| Risk |
| * The entity is exposed to climate-related risks, including [provide specific details]. These risks may have an impact on

[examples below for consideration]* + the useful economic life / fair value of assets
	+ the underlying assumptions used in testing for asset impairment, such as increased costs of operating these assets and/or reduced demand for products and services
	+ the likelihood of onerous contracts or contingent liabilities arising from fines and penalties
	+ [other examples of areas that could be impacted include] fair values, commodity hedges, expected credit losses, provisions
* [Include additional discussion of the risk factors that led to the defined level of risk (for example, significant risk) at a specific and detailed level, as applicable to the engagement.]
 |
| Our planned response |
| * Understand management’s process of identifying and assessing climate-related risks and how management has considered climate-related initiatives or commitments as part of its risk assessment.
* Consider how management has reflected the potential impact of climate-related risks in the preparation of the financial statements and disclosures.
* Consider management’s assessment of the potential impact of climate change on the underlying assumptions and estimates used within the financial statements.
* Check the consistency of climate-related disclosures contained in other information, including [identify specific areas of other information—for example, publicly committed emissions targets, disclosures in sustainability reports], with information included in the financial statements and our knowledge obtained from the audit.
 |

# Reliance on internal control

[This section is required if significant deficiencies in internal control were identified during our current year planning/interim procedures and/or if there are recurring deficiencies that remain un‑remedied.]

[Note: We communicate significant deficiencies in internal control (including IT deficiencies), including those identified by all engagement team members involved in the audit (for example, IT audit specialist, actuary, or other) to those charged with governance as required under CAS 265 and the *Financial Administration Act*. Recurring deficiencies shall be communicated by a discussion of our follow‑up financial audit work, including any progress that has been made.]

[Identify the business cycle(s) where we do not expect to be able to rely on controls and the reasons why. Describe any significant deficiencies identified during our current year planning/interim procedures, including recurring deficiencies that remain un‑remedied. For each deficiency, provide a description, an explanation of the potential effects, and recommended improvements. Provide sufficient information to enable the committee and management to understand the context of the communication.]

We will update this information as appropriate when we report back to you at the end of the audit.

[The text below is optional for teams that would like to provide more details about their approach.]

We have assessed the overall control environment and the control activities relevant to the audit of [name of the entity] and will, therefore, be [insert assessment—adopting or not adopting] a controls‑reliant approach.

[Discuss the general control environment and identify business cycles where we expect to be able to rely on controls for a significant portion of our audit assurance, including, where considered appropriate, a description of relevant controls.]

# Executive and board compensation, travel, hospitality, conferences, and events

[This section is required only if we plan to perform procedures related to executive compensation, travel, hospitality, conferences, and events during our audit.]

Our audit approach is based on our risk assessment. In planning and performing this work, we consider both the materiality of these expenditures and legislative authorities.

[If applicable, describe the planned response to this year’s risk assessment of executive and board compensation, travel, hospitality, conferences, and events.]

# Security screening of joint auditors

[This section is required only if applicable.]

The Auditor General of Canada and [Name of joint auditor] have been jointly appointed as auditors for this engagement. During the course of the audit, the Office of the Auditor General of Canada and [Name of joint auditor] will access sensitive information concerning the entity, which may be discussed or shared among audit staff members.

It is management’s responsibility to ensure that the Office of the Auditor General of Canada’s employees and [Name of joint auditor’s] employees conducting the audit have appropriate security clearance.

Neither the Office of the Auditor General of Canada nor [Name of joint auditor] accepts responsibility for the security clearance of each other’s employees.

# Appendix C—Developments in accounting and auditing standards

[Teams can consult the links mentioned in the template.]

[Below is the proposed approach for presentation in the template. Teams should adapt the proposed approach.]

|  |
| --- |
| IFRS XX–XXNew accounting standard effective XXXX  |

|  |  |
| --- | --- |
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