



**AASOC
PUBLIC REPORT**

AUDITING AND ASSURANCE STANDARDS OVERSIGHT COUNCIL

PUBLIC REPORT Period Ended June 30, 2009

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ACRONYMS

AASB	Auditing and Assurance Standards Board
CA	Chartered Accountant
CAS	Canadian Auditing Standards
CGA	Certified General Accountant
CICA	Canadian Institute of Chartered Accountants
CMA	Certified Management Accountant
CPAB	Canadian Public Accountability Board
CSA	Canadian Securities Administrators
CSQC	Canadian Standard on Quality Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
OSFI	Office of the Superintendent of Financial Institutions
PIOB	Public Interest Oversight Board
PICA	Provincial Institute of Chartered Accountants

AASOC'S Role

The Auditing and Assurance Oversight Council (AASOC) is an independent body established to serve the public interest by overseeing the activities of the Auditing and Assurance Standards Board (AASB). The AASB sets the standards for auditing, assurance and related services in Canada. The AASOC provides oversight to the AASB and brings a broad perspective to the complex issues that need to be considered in standard setting, including the adoption of International Standards on Auditing (ISAs) developed by the International Auditing and Assurance Standards Board (IAASB).

Members of the AASOC comprise senior representatives from public interest bodies (including the Canadian Securities Administrators (CSA), the Office of the Superintendent of Financial Institutions (OSFI), the Canadian Public Accountability Board (CPAB), and the International Public Interest Oversight Board (PIOB) as well as other prominent members of the community.

Message from the AASOC Chair



In the Fall of 2008, I took on the role of the Chair of the AASOC. I am pleased to report that over the last year, the AASOC designed and implemented a more systematic, rigorous oversight process as set out in the AASOC's "Oversight Framework and Operating Plan" ("Framework")¹ released in April 2009. The policies and procedures set out in the Framework were put into effect in reviewing the due process followed by the AASB in finalizing its first set of Canadian Auditing Standards (CASs) which were adopted from the clarified international standards on Auditing (ISAs). The CASs were included

in Part I of CICA Handbook – Assurance in June 2009. This year, another major initiative for the AASOC was the development of a process that would allow it to accept responsibility for overseeing the setting of independence standards for the CA profession. The AASOC expects to finalize the process in the coming year and begin monitoring the development of revised independence standards based on the newly-revised international *Code of Ethics for Professional Accountants*.

The AASOC's continuing improvements to its public oversight process are the result of the dedicated volunteer efforts of the AASOC members. Over the past six years, these efforts were led by my predecessor, Mr. James Baillie, the founding Chair of the AASOC. There are always significant challenges in establishing any new body, particularly one whose role is to help ensure that the public interest takes precedence in setting standards that have a significant effect on capital markets. Mr. Baillie met all of these challenges head on, applying his considerable knowledge and expertise in establishing a solid foundation on which to base the AASOC's ongoing work. The AASOC members are very appreciative of the leadership he provided over the years.

The AASOC much regretted the passing of Mr. Keith Boocock in June 2008 who ably served as a member of AASOC from the Fall of 2006 until mid-2008. Thanks were expressed to Mr. Ken Vallillee, CPAB Senior Vice President for representing CPAB at AASOC meetings on an interim basis until early 2009.

This year saw the retirement of three other founding AASOC members: Mr. Ross MacKinnon (who also served as Chair of the Nominating Committee), Ms. Jill Bodkin and Mr. Robert Muter. The insightful perspectives these members brought to the AASOC were instrumental in helping it evolve into an effective oversight body. They contributed much to the work of the AASOC.

¹ This document can be found at <http://www.aasoc.ca/about-aasoc/item13977.pdf>

The AASOC was also successful in recruiting new volunteer members who will no doubt make significant contributions to the AASOC's future initiatives. These new members include Mr. Calvin H. Buss, a partner in the firm of Deloitte & Touche LLP; Mr. William J. McFetridge, a partner in the law firm of Bull, Housser & Tupper LLP, and Mr. James Sylph, Executive Director, Professional Standards of the International Federation of Accountants (IFAC). The AASOC also welcomed as a member Mr. Brian Hunt, who became the Chief Executive Officer of the Canadian Public Accountability Board (CPAB) this year and will provide a very valuable perspective to the AASOC's deliberations.

The report attached provides an overview of the AASOC's activities over the last fifteen months. Going forward, both the AASB and the AASOC will face different challenges as AASB develops an updated strategic plan and the focus of activities temporarily shifts away from revising and developing new financial statement auditing standards to a focus on other types of assurance engagements. The AASOC looks forward to effectively working with Mr. Ken Krauss, the AASB Chair and the other AASB members in continuing to improve the quality of auditing and assurance standards.

A handwritten signature in black ink, appearing to read 'D.A. Brown', with a long horizontal flourish extending to the right.

David A. Brown, C.M., Q.C.
Chair

Overview of the AASOC's Activities

High-quality financial statement audits help ensure the effective functioning of capital markets. The need for effective auditing based on robust standards has never been greater given the negative effects of the global recession on the operations and financial positions of many entities. During the fifteen months ended June 30, 2009, the AASOC contributed to improved audit quality through its oversight of the AASB. The AASOC's oversight activities during the period included:

- A. Clarifying and improving the AASOC's oversight framework
- B. Evaluating the credibility of, and compliance with, the AASB's standards-setting process
- C. Appointing members to the AASOC and the AASB.

This report provides an overview of the above-noted activities.

A. Clarifying and improving the AASOC's oversight framework

In April 2009, the AASOC published its revised "Framework." This Framework is the result of continuing efforts by the AASOC to improve the basis on which it evaluates the credibility of the AASB's standard-setting process and the AASB's compliance with that process. Three key steps the AASOC took in clarifying and improving its Framework are as follows:

1. *Identifying minimum required elements of a credible standard-setting process.* These include:
 - safeguards in place to ensure that public interests are put before professional interests;
 - a transparent, well-understood and effectively communicated due process for both:
 - identification of emerging issues that may require setting of standards; and
 - timely development of new standards and amendment of existing standards; (Due process, in this context, includes both the design of standard-setting systems and their operating effectiveness.)
 - proactive solicitation of significant and widespread stakeholder involvement in the initiation and formulation of new standards and amendment of existing standards;
 - documented appropriate consideration of stakeholder comments;
 - active participation by sufficiently capable and competent AASB members in all stages of due process;
 - sufficiently capable and competent professional staff involved at all stages of due process;
 - a process that is adaptable to a changing environment;
 - a continuous improvement approach to the standard-setting process by the AASB, including self assessment; and

- continuous public oversight of the standard-setting process, including oversight of the design of the system that addresses the above elements and the monitoring of the ongoing implementation of the system as it applies to the setting of standards.
2. *Agreeing on the overriding requirements of an analytical framework for effectively evaluating the credibility of the Canadian standard-setting process and whether the AASB followed that process.*

Given that the accounting profession in Canada is self-regulated, the overriding requirements reflect that, throughout all phases of the standard-setting process, there must be:

- an analysis of purpose and proposed requirements of each standard to guard against setting a standard that puts the interests of the accounting profession ahead of those of the public; and
 - an assessment of whether the benefits to accrue from changes to a standard will outweigh the cost of implementing the amended standard.
3. *Identifying the important matters on which the AASOC should focus on performing its oversight role and the related procedures it should perform.* These include:
- assessing whether AASB has maintained a credible due process and followed that due process for standards being developed during the period;
 - reviewing the AASB's triennial strategic planning process, and the AASB's annual work plans designed to achieve its strategic objectives and its performance in carrying out its work plans; and
 - communicating to stakeholders matters discussed by the AASOC (for example, through posting of minutes of the AASOC meetings on its website) and issuing an annual statement on the credibility of the Canadian standard-setting process.

The AASOC revised its [Terms of Reference](#) to ensure consistency with the Framework.

B. Evaluating the credibility of, and compliance with, the AASB's standard-setting process

During the period, the AASOC implemented its revised Framework. Significant activities undertaken included those set out below.

Assessing due process for standards developed in the period

The AASB completed its process of adopting as Canadian Auditing Standards (CASs), the International Standards on Auditing (ISAs) developed from the IAASB's Clarity project.

The AASB also adopted the International Standard on Quality Control (ISQC) 1 as Canadian Standard on Quality Control (CSQC 1).

Regarding the AASB's adoption of international standards, the AASOC concluded that it is appropriate to place significant reliance on the process used by the PIOB to oversee the activities of the IAASB. The AASOC will annually review the PIOB's activities (as outlined in the PIOB's annual reports) and perform related procedures as necessary to assess whether such reliance continues to be appropriate.

Taking such reliance into account, the AASOC required the AASB to provide the following documentation to enable the AASOC to determine if the AASB had followed due process:

- the Canadian standard;
- the IAASB's Basis for Conclusions for the relevant international standard;
- the AASB's Basis for Conclusions;
- staff's analysis of comments received from stakeholders (in response to Exposure Drafts) requesting the AASB to amend the wording of the relevant international standard in finalizing the Canadian standard, and the AASB's response to such comments;
- the summary of due process followed by the AASB throughout the project to develop the standard, indicating, for example, the relevant dates when each step in the process was performed; and
- the certification from the Director, Auditing and Assurance Standards, that due process was followed in approving the relevant standard.

The AASB Basis for Conclusions referred to above is a new document that the AASOC requested be provided by the AASB for each new standard issued. This document will make the AASB's decisions in finalizing a standard more transparent.

The CASs approved under AASOC's oversight are set out in Appendix B.

In implementing its Framework, the AASOC also amended its procedures so that an AASOC member observes all (or a significant part of) each AASB meeting, and provides a written report on the conduct of that meeting to the AASOC and the AASB. These reports cover such matters as the overall quality of discussion at the meeting, extent of participation by AASB members and whether due process was followed.

In addition, on a timely basis, the AASB Chair and Vice Chair brought to the AASOC's attention, contentious matters (for example, issues related to possible amendments of international wording in finalizing the Canadian standards), and the AASB's approach to dealing with these matters.

Reviewing the AASB's annual work plan, performance and strategic planning process

In the Fall of 2008, the AASOC provided advice to the AASB on its work plan for 2009-10 and agreed that the work planned would significantly contribute to achieving the AASB's current strategic objectives. Significant aspects of that work plan include:

- completing the process to include the CASs and CSQC 1 in the CICA Handbook – Assurance;
- providing timely information to stakeholders to assist with the implementation of the CASs and CSQC 1;
- developing a new strategic plan for the AASB to cover the period April 1, 2010 to March 31, 2013;
- developing a new Handbook structure that provides an appropriate framework for future development of standards;
- considering revisions to the Joint Policy Statement with the Canadian Bar Association, and standards related to review engagements, securities regulatory matters and umbrella standards related to assurance engagements);
- commencing projects to develop new standards for assurance services such as those related to carbon emissions information;
- monitoring IAASB activities and providing timely input to the CICA nominee on the IAASB; and
- working with the AASOC to continue to improve aspects of due process.

In June 2009, the AASOC reviewed the AASB's draft annual report that included a summary of the AASB's accomplishments during 2008-09. The AASB's major focus was on adopting ISAs as CASs and the AASB achieved virtually all its performance targets regarding this initiative.

At this June meeting, the AASOC also reviewed the AASB's proposed approach to developing its revised strategic plan for 2010-13, including planned proactive efforts to obtain input from stakeholders using means such as face-to-face consultations and brief surveys. The AASOC will continue to monitor all significant aspects of this strategic planning process to ensure that it is appropriately transparent and continues to serve the public interest.

C. Appointing Members to the AASB and the AASOC

The setting of high-quality standards requires that experienced, knowledgeable volunteers be at the AASB table. AASB members must also be willing to meet the very significant demands on their time and energy. The AASOC, with significant assistance

from its Nominating Committee, evaluated and endorsed the nomination of three new AASB members to replace members retiring as at April 1, 2009.

During the year, the AASOC, again with the assistance of its Nominating Committee, was successful in recruiting three new members of the AASOC to replace retiring members.

The members of the AASOC as at June 30, 2009 are set out in Schedule A.

Looking Forward

Future development of auditing and assurance standards

During the next year, the AASOC's focus will be on providing oversight of the AASB's major activities that will include the following:

- further actions to update the AASB's triennial strategic plan, including consultation with stakeholders to obtain views on the AASB's future direction;
- monitoring and influencing the initiatives of the IAASB as set out in its *Strategy and Work Program, 2009-2011*, which includes, for example, work on standards for review engagements and compilations and assurance engagements dealing with carbon emissions information;
- conducting research, fact finding and consultations, and developing project proposals relating to review engagements and new assurance and related services; and
- continuing the process to improve the structure of the CICA Handbook – Assurance to better meet user needs.

The AASOC will also continue to work on improving the quality of its oversight processes.

Oversight of independence rules

The AASOC's mandate currently extends to oversight of auditing and assurance standards. The auditing and assurance standards refer to relevant rules of professional conduct. Internationally, the independence rules are contained in the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants (IESBA), under the oversight of the IOB. National accounting bodies who are members of IFAC such as the CICA, the Certified General Accountants' Association of Canada (CGA), and Certified Management Accountants Canada (CMA) have an obligation as members to use their best efforts to ensure that public accountants who are members of those bodies follow a code of ethics that is no less stringent than the IFAC code. However, CICA has no direct authority regarding such rules/code. Rules of professional conduct for chartered accountants are the responsibility of provincial institutes of chartered accountants/Ordre (PICAs), although development of these rules is coordinated nationally by the Public Trust Committee of the Council of Senior Executives of the CICA and PICAs.

The AASOC and those responsible for setting independence rules for Canadian chartered accountants have agreed that the AASOC's mandate should be expanded to provide public oversight for the setting of such rules. One of the AASOC's goals in undertaking this role is to promote the convergence of such rules with those in the IESBA's Code.

AASOC Members

as at June 30, 2009

Chair

David A. Brown, C.M., Q.C.
Davies Ward Phillips & Vineberg LLP
Toronto, Ontario

Members

Calvin H. Buss, FCA
Deloitte & Touche LLP
Toronto, Ontario

Marion S. MacDonald, FCA
Hilborn Ellis Grant LLP
Toronto, Ontario

James M. Sylph, FCA
International Federation of
Accountants
New York, New York

Brian A. Hunt, FCA
Canadian Public
Accountability Board
Toronto, Ontario

William J. McFetridge, CA, LLB
Bull, Houser & Tupper
Vancouver, British Columbia

David Wilson
Ontario Securities Commission
Toronto, Ontario

Andrew Kriegler
CIBC
Toronto, Ontario

Erik Peters, FCA
(former) Auditor General of Ontario
Ottawa, Ontario

Non-Voting Members**AASB**

Kenneth M. Krauss, FCA
Deloitte & Touche LLP
Toronto, Ontario

IAASB

Philip H. Cowperthwaite, FCA
Cowperthwaite Mehta
Toronto, Ontario

OSFI

Robert Hanna
Office of the Superintendent
of Financial Institutions Canada
Ottawa, Ontario

CICA

A. Ron Salole

Gregory P. Shields, CA

Jan Burns
(AASOC Secretary)

Nominating Committee**Chair**

Andrew Kriegler

Members

David A. Brown

Non-voting Members

Kenneth M. Krauss
A. Ron Salole

Retired members as of April 1, 2009

Jill Bodkin

H. Ross MacKinnon

Robert J. Muter

**Auditing and Assurance Standards Approved
During the Fifteen Months Ended June 30, 2009**

The Auditing and Assurance Standard Board approved the standards set out in the table below. These standards have been adopted from the international standards developed by the International Auditing and Assurance Standards Board (IAASB). At its June 2009 meeting, the AASOC reviewed documentation submitted by the AASB regarding the adoption process it followed for the standards. The AASOC confirmed that due process was followed for these standards.

The Canadian Auditing Standards (CASs) become effective for audits of financial statements for periods ending on or after December 14, 2010. Canadian Standard on Quality Control (CSQC) 1 comes into effect for periods beginning on or after December 15, 2009.

Number and Title of Standard

CSQC 1	Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements
CAS 200	Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with Canadian Auditing Standards
CAS 210	Agreeing the Terms of Audit Engagements
CAS 220	Quality Control for an Audit of Financial Statements
CAS 230	Audit Documentation
CAS 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
CAS 250	Consideration of Laws and Regulations in an Audit of Financial Statements
CAS 260	Communications with Those Charged with Governance
CAS 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
CAS 300	Planning an Audit of Financial Statements
CAS 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
CAS 320	Materiality in Planning and Performing an Audit
CAS 330	The Auditor's Responses to Assessed Risks
CAS 402	Audit Considerations Relating to an Entity Using a Service Organization
CAS 450	Evaluation of Misstatements Identified during the Audit
CAS 500	Audit Evidence
CAS 501	Audit Evidence—Specific Considerations for Selected Items

CAS 505	External Confirmations
CAS 510	Initial Audit Engagements—Opening Balances
CAS 520	Analytical Procedures
CAS 530	Audit Sampling
CAS 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
CAS 550	Related Parties
CAS 560	Subsequent Events
CAS 570	Going Concern
CAS 580	Written Representations
CAS 600	Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
CAS 610	Using the Work of Internal Auditors
CAS 620	Using the Work of an Auditor’s Expert
CAS 700	Forming an Opinion and Reporting on Financial Statements
CAS 705	Modifications to the Opinion in the Independent Auditor’s Report
CAS 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report
CAS 710	Comparative Information—Corresponding Figures and Comparative Financial Statements
CAS 720	The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
CAS 800	Special Considerations—Audit of Financial Statements Prepared in Accordance with Special Purpose Frameworks
CAS 805	Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
CAS 810	Engagements to Report on Summary Financial Statements