



AUDITING AND ASSURANCE STANDARDS OVERSIGHT COUNCIL



PUBLIC REPORT

Period ended August 31, 2010

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ACRONYMS

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

The 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 standards-setting, including the adoption of International Standards on Auditing (ISAs) developed by the International Auditing and Assurance Standards Board (IAASB). The AASOC also oversees the establishment of independence standards set by the CA profession to safeguard the public interest. The AASOC membership is comprised of senior representatives from public interest bodies (including the Canadian Securities Administrators (CSA), the Office of the Superintendent of Financial Institutions Canada (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 Chair



David Brown

During the period ended August 31, 2010, there were significant accomplishments in the setting of auditing standards. In addition, the AASOC expanded its role to oversee the development of new independence rules for Chartered Accountants.

The AASOC is proud to have played an oversight role in helping the Auditing and Assurance Standards Board (AASB) achieve a milestone in Canadian standard setting. In December 2009, the first set of 36 Canadian Auditing Standards (CASs) and Canadian Standard on Quality Control 1 (CSQC 1) were published in the CICA Handbook – Assurance having virtually the same wording as the clarified International Standards on Auditing (ISAs) and International Standard on Quality Control ISQC 1. This was a great achievement for the members of the AASB and all others involved in the standard-setting process.

In September 2009, the AASOC also agreed to provide oversight of the work of the activities of the Canadian Chartered Accountants' Independence Task Force and has had significant dialogue with that task force. In undertaking this new role, the AASOC recognizes that the independence of public accountants is fundamental to the performance of assurance services in the public interest.

Of course, no standard-setting initiatives can be successful without the efforts of qualified and dedicated volunteers. Appointing the appropriate members to the AASB is a vital step in the AASOC's oversight activities. With the assistance of its Nominating Committee chaired by Andrew Kriegler, the AASOC appointed the following individuals as AASB members effective April 1, 2010:

- Ms. Carol Bellringer (Auditor General, Manitoba);
- Mr. Darrell Jensen (partner, Ernst & Young);
- Mr. Andrew Macartney (partner, Deloitte); and
- Mr. Alan Reynolds (Vice-President, National Office, Internal Audit, CIBC).

In addition, effective April 1, 2010, the AASOC appointed Bruce Winter (partner, PricewaterhouseCoopers) as Chair of the AASB, with Mark Davies (partner, KPMG) as its Vice-Chair. The AASOC also conveyed its appreciation to Mr. Kenneth Krauss who so ably chaired the AASB for the last two years and served as a dedicated member for eight years.

This year also saw the retirement of three veteran AASOC members: Mr. Eric Peters, Ms. Marion MacDonald and Mr. Robert Hanna. The AASOC recognizes and greatly appreciates all of their many significant contributions to AASOC activities over the years. We also welcomed, as new members, Ms. Karen Stothers representing OSFI and Mr. David Rattray representing the public sector. Efforts continue to expand the number and diversity of AASOC members.

The report attached provides an overview of the AASOC's key activities over the last fourteen months. Going forward, the next few years will not be a time of rest for the AASB or the AASOC despite all the hard work already put in. In April 2010, the AASB issued its Invitation to Comment on its proposed 2010-13 Strategic Plan. When finalized later this year, the plan will provide the basis for continued significant work in setting standards not only for financial statement audits, but a wider range of assurance and related services. The AASOC looks forward to working with Mr. Bruce Winter, the AASB Chair and the other AASB members in continuing to improve quality of auditing and assurance standards.

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

Overview of the AASOC's Activities

During the fourteen months ended August 31, 2010, the AASOC continued to contribute to improved audit quality and thereby the effective functioning of capital markets by undertaking the following activities:

- A. Evaluating the credibility of, and compliance with, the AASB due process for setting standards.
- B. Overseeing the development of AASB's 2010-2013 Strategic Plan.
- C. Appointing members to the AASOC and the AASB.
- D. Overseeing the activities of the Canadian Chartered Accountants' Independence Task Force.

This report provides an overview of the above-noted [activities](#).

A. Evaluating the credibility of, and compliance with, AASB due process for setting standards

Due process for setting standards for audit, assurance and related services

After appropriate review and discussion, the AASOC unanimously confirmed that due process had been followed in developing standards and guidelines that included the following:

1. *Section 7050, Auditor Review of Interim Financial Statements*
Limited changes were made to this Section to maintain a consistent approach between securities regulations and Section 7050 regarding the public issuance of auditor's reports on interim financial statements.
2. *Section 7500, Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents.*
This Section now deals with the auditor's responsibilities, after the completion of the audit of the entity's financial statements, when the auditor agrees to consent to the use of the auditor's report in connection with designated documents filed with securities regulators.
3. *Canadian Standard for Assurance Engagements (CSAE) 3416, Reporting on Controls at a Service Organization.*
This CSAE addresses audit engagements undertaken by a service auditor to report on controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting.

4. Assurance and Related Services Guideline (AuG) 46, "Communication with Law Firms under New Accounting and Auditing Standards"

This Guideline provides interim guidance to assist financial statement preparers (clients), auditors and law firms to communicate with respect to claims and possible claims in circumstances when an entity is preparing financial statements using International Financial Reporting Standards (IFRSs), including in particular International Accounting Standard (IAS) 37 "Provisions, Contingent Liabilities and Contingent Assets."

Preface to the CICA Handbook – Assurance

The AASOC confirmed that the AASB followed due process in developing the Preface to the CICA Handbook-Assurance. The Preface is not a standard and, therefore, does not contain any requirement or provide guidance on the application of the standards. However, it serves a number of important purposes including making it easier to understand the scope and authority of the various AASB pronouncements and providing a clear mapping of differences between the International Standards on Auditing (ISAs) and Canadian Auditing Standards (CASs).

Translation process

The AASOC received a report from Suzanne Mondoux, Director, CICA Language Services, on the process used by the CICA to ensure that English language standards are properly translated into French. In Canada, both the French and English versions of the standards are official versions that have equal weight. It was noted that the CICA Languages Services Department complies with the rigorous criteria set out in the policy statement of the International Federation of Accountants (IFAC) "Translation of Standards and Guidance Issued by the International Federation of Accountants."

Continued improvements to the AASB's due process

Under the oversight of the AASOC, the AASB continued to improve its due process for setting standards. Changes were made to provide the AASOC with more detailed documentation to indicate the performance of each key step in developing a standard. The AASB will further review its due process in the next year and explore with the AASOC what, if any, further improvements are needed.

The Auditor's Report – Changes under the CASs

The AASOC strongly supported the AASB's decision to facilitate the formation of the Audit Reporting Implications of the New CASs Task Force. The AASOC noted that the adoption of ISAs for auditor's reports will result in significant changes to the form and content of auditor's reports. There are also reporting

implications associated with the transition to new financial reporting frameworks, including the International Financial Reporting Standards and Accounting Standards for Private Enterprises. Therefore, questions are likely to arise regarding how auditor's reports should be worded in particular circumstances. The Task Force will develop non-authoritative guidance to help auditors deal with reporting issues and provide clear and meaningful reports to users of audited financial statements.

B. Overseeing the Development of AASB's 2010-13 Strategic Plan

During the period, the AASOC continued to provide oversight of the development of the AASB's 2010-13 Strategic Plan that was developed based on input from Canadian stakeholders. The AASOC noted that this ITC reflected the results of extensive consultations with stakeholders conducted by AASB staff during 2009.

C. Appointing Members to the AASOC and the AASB

AASOC

The AASOC amended its [Terms of Reference](#) to increase its membership to a minimum of 13 members, and a maximum of 17 members including the Chair and members from the four designated bodies who have the right to be represented on the AASOC (CSA, OSFI, CPAB and the PIOB (if a member is resident in Canada)).

Two new members were appointed with the assistance of the Nominating Committee. Efforts will continue to increase the number and diversity of members.

The list of members of the AASOC is set out in the schedule attached.

AASB

During the period, the Nominating Committee sought candidates for membership on the AASB from industry, the legislative auditor community and two of the large public accounting firms. Also, the AASOC ensured that there continued to be an appropriate geographic and gender mix among members of the AASB. Four new members were appointed to replace retiring members and one member's term was renewed for another three years.

D. Overseeing the Activities of the Canadian Chartered Accountants' Independence Task Force

In September 2009, the AASOC agreed to provide independent oversight of the development of the revised Rules of Professional Conduct for Canadian Chartered Accountants regarding independence. These revised independence standards are being developed by the Independence Task Force (ITF) of the CA Profession's Public Trust Committee.

In providing oversight of the work of the ITF, the AASOC satisfies itself as to whether the ITF has followed a credible process, including the transparency of that process. The AASOC's oversight activities to date, conducted in accordance with a protocol agreed with the ITC, have included the following:

- having an AASOC member act as an observer with speaking rights at each meeting of the ITF;
- providing input expanding and changing the nature of the makeup of the ITF; and
- receiving reports from the ITF and discussing key issues.

In April of 2010, the ITF issued the following documents concurrently:

1. A Consultation Paper "Independence Requirements Under Review," asking for input on a proposal to adopt the IFAC Code into the Rules of Professional Conduct, amended only as appropriate for Canadian specific circumstances, as discussed in the paper.
2. An Exposure Draft "Independence Standards – Partner Rotation," asking for input on its proposal to adopt certain partner rotation provisions contained in the IFAC Code.

Under the oversight of the AASOC, the ITF will consider the input received from stakeholders and decide what further action to take.

E. OPERATING COSTS

Members of the AASOC contribute their time voluntarily; however, operating costs of the AASOC are funded by the CICA. Approximate annual costs of \$24,000 relate primarily to translation, meetings and travel. In addition, the CICA provides staff support.

LOOKING FORWARD

With input from the AASOC, the AASB expects to finalize its 2010-13 Strategic Plan in the fall of 2010, having considered input received from stakeholders. The AASOC has noted that auditors will be given time to implement existing CASs, since only a limited number of new international auditing standards are scheduled to be developed over the next few years. However, projects will be undertaken with respect to other types of assurance and related services. The AASB has also determined that over the next few years, there is a need to restructure the CICA Handbook – Assurance so that it will better meet the needs of practitioners. Therefore, there will continue to be a considerable volume of standard-setting activity, to be responsive to meeting the needs of public accountants, the entities to whom they provide services, and the many stakeholders who use the information produced from these activities. The AASOC will oversee these activities with the objective of ensuring that all of the resulting output is consistent with the public interest.

Auditing and Assurance Standards Oversight Council Members as at August 31, 2010

Chair

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

Members

Calvin H. Buss, FCA
Deloitte LLP
Toronto, Ontario

Andrew Kriegler
CIBC
Toronto, Ontario

James M. Sylph, FCA
International Federation of
Accountants
Toronto, Ontario

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

David Rattray, FCGA, FCIS PAdm, CIA
Centre for Public Management
Ottawa, Ontario

Non-Voting Members

AASB

Bruce Winter, FCA
PricewaterhouseCoopers LLP
Toronto, Ontario

IAASB

Philip H. Cowperthwaite, FCA
Cowperthwaite Mehta
Toronto, Ontario

OSFI

Karen Stothers, CA
Office of the Superintendent
of Financial Institutions Canada
Toronto, Ontario

CICA

A. Ron Salole
Vice-President, Standards

Gregory P. Shields, CA
Director, Auditing and Assurance
Standards

Jan Burns
AASOC Secretary

Nominating Committee

Chair

Andrew J. Kriegler

Members

David A. Brown

Non-voting Members

**Bruce Winter
Ron Salole**

Retired members as of March 31, 2010

Marion S. MacDonald

Erik Peters

Robert Hanna

