

Auditing and Assurance Standards Oversight Council Quality Assurance Committee

Report to AASOC on 2016-2017 Oversight Activities

The Quality Assurance Committee:

- annually reviews the oversight activities of AASOC, including annual and other oversight functions, asserts whether those activities have been performed in accordance with AASOC's policies and procedures, and makes recommendations as appropriate for improvement of oversight processes;
- annually reviews the oversight of the composition of the Auditing and Assurance Standards Board (AASB) and AASOC; and
- triennially reviews AASOC's Terms of Reference and Framework and makes recommendations to AASOC for change(s) as appropriate.

The Quality Assurance Committee reports the results of these reviews to AASOC at AASOC's first meeting after March 31. The AASOC minutes available to the public note the Quality Assurance Committee report.

Following is the report of the Quality Assurance Committee on activities of AASOC for the period from April 1, 2016 to March 31, 2017.

Overarching comments on the oversight process

- AASOC's Quality Assurance Committee met four times during the year.
- AASOC met four times during the year.

Summary conclusion

AASOC's oversight activities have been performed in accordance with its policies.

1. Annual review of the oversight activities of AASOC

AASOC's goals and objectives are set out in its Oversight Framework and Operating Plan. The Oversight Framework sets out specific procedures that AASOC follows in order to ensure that it provides effective oversight of auditing, other assurance and related services standards and independence rules in Canada. AASOC measures its performance by comparing achieved outcomes to these procedures.

Oversight of the AASB's strategic planning process and annual work plans

AASOC is responsible for reviewing the AASB's strategic planning process, which occurs every five years. In each year following the issuance of the strategic plan, an annual review of the strategic plan is performed by the AASB. The AASB reports the results of this review to AASOC.

Annually, the AASB discusses its proposed work plan for the upcoming year with AASOC. This discussion includes how the proposed detailed annual work plan is expected to contribute to achieving the objectives of the Strategic Plan.

While preparing the AASB's annual report, the AASB and AASOC discuss the AASB's performance during the past year with reference to the detailed annual work plan.

AASOC Actions	Outcomes
Review the AASB Strategic Plan.	<p>The draft Strategic Plan for 2016-2021 was released for public comment in November 2015.</p> <p>AASOC's Strategy Committee reviewed the AASB's process to analyze comments received and finalize the Plan. The Strategy Committee provided comments to the AASB. The AASB discussed and responded to these comments.</p> <p>In July 2016, AASOC confirmed that the AASB followed due process in preparing the Plan.</p>
Review the AASB annual work plan.	<p>The work plan for 2016-2017 was approved by the AASB at its March 2016 meeting. In developing the work plan, the AASB included specific projects to begin implementation of the draft strategic plan for 2016-2021.</p> <p>AASOC assessed the AASB's work plan, including how it will contribute to achieving the objectives of the strategic plan for 2016-2021 at its April 2016 meeting.</p> <p>AASOC also reviewed the AASB 2015-2016 Annual Report. The report summarizes the AASB's achievements compared to its goals set in its Strategic Plan and annual work plan.</p> <p>The work plan for 2017-2018 is expected to be approved by the AASB in early April 2017. AASOC's Strategy Committee reviewed and provided input on drafts of the work plan, including the AASB's performance report for 2016-2017. The AASB discussed and responded to these comments. AASOC is expected, at its April 2017 meeting, to confirm that the AASB followed due process in developing the work plan.</p>

Conclusion

AASOC's oversight of the AASB's strategic planning process and annual work plans has been performed in accordance with AASOC's policies.

Recommendations for improvement of the oversight process

The AASOC Strategy Committee commented on the timeliness of when it received draft documents for review. In addition, it noted that it was only involved late in the strategic planning process. Going forward, the Strategy Committee should be involved at all stages of both the AASB's strategic and operations planning. This includes ensuring the AASB draft agenda papers are provided well enough in advance of meetings to allow the Strategy Committee to provide comments.

Evaluating the credibility of the due process for developing and issuing standards

AASOC's goal is to ensure that the AASB and the ad hoc Independence Task Force of the Public Trust Committee appropriately consider public versus professional interests in the Canadian context of auditing, other assurance and related services standards, and independence rules for each project undertaken.

To meet this goal, an AASOC member attends meetings of the AASB and the Independence Task Force whenever possible. Following approval by the AASB and the Independence Task Force of each standard or rule, AASOC receives a detailed report and a written declaration that due process was followed in the standard-setting process. AASOC discusses and, where appropriate, approves this report.

AASOC Actions	Outcomes
Continually review the effectiveness of the AASB's due process.	The AASB did not complete a formal review of its due process in 2016-2017. The AASB is currently reviewing its processes as well as the processes of other standard setters to identify improvements. The AASB received approval for a compensated AASB Chair position, which needs to be filled. The AASB also decided to form a Steering Committee. The implications of both on the AASB's processes is being considered
At least one AASOC member attends the AASB and Independence Task Force meetings to observe (with speaking rights).	The following nine AASB meetings were observed: <ul style="list-style-type: none">• In 2016 – April 3, May 5, June 13-14, July 7, September 12-13, October 17-18, November 28-29.• In 2017 – January 23-24, March 6-7. The Independence Task Force had no meetings during the year. AASOC observers obtained direct evidence of effective due process by focusing not only on whether due process was followed but also, among other areas, on the thoroughness

AASOC Actions	Outcomes
	<p>with which issues were debated and the level of participation by the members in the discussion.</p> <p>AASOC observers provided an oral report to the AASB at the end of each meeting observed and a written report to AASOC subsequent to each meeting.</p> <p>No significant issues with respect to due process were raised by AASOC observers during the year.</p>
Ensure due process was followed.	At each AASOC meeting, the AASB and the Independence Task Force reported on their discussions and conclusions on significant or contentious matters. These reports enabled AASOC to have a discussion and provide further information to assist in concluding whether due process was followed.

In an annual discussion with AASOC, the AASB reports on its efforts to provide timely input to the International Auditing and Assurance Standards Board (IAASB) standards development.

AASOC Actions	Outcomes
Evaluate credibility of the standard-setting process by receiving updates from the IAASB and the Public Interest Oversight Board (PIOB) members at each meeting and reviewing the IAASB and PIOB annual reports.	<p>AASOC continued to closely monitor the IAASB's progress on their projects, and the actions of the AASB in response to those IAASB projects.</p> <p>Updates were provided at all AASOC meetings by an IAASB member.</p> <p>The Communication Committee reviewed PIOB's 2015 Annual Report in detail. Based on this review, nothing came to AASOC's attention that led it to believe that the IAASB did not follow due process when setting standards.</p> <p>In January 2017, Karen Stothers joined the PIOB. She provided an update on PIOB's meetings at the February 2017 AASOC meeting. Prior to that, there was no Canadian resident PIOB member. Between April 2016 and February 2017, AASOC was provided with PIOB updates that were posted on the PIOB website at each meeting.</p> <p>Late in the year, Kevin Dancey joined the PIOB. AASOC extended an invitation for Kevin to join AASOC.</p>
Review compliance with due process, including a review of final standards	Based on presentations to AASOC from the IAASB member, PIOB updates and review of IAASB and PIOB annual reports, AASOC concluded that the IAASB's due process for

AASOC Actions	Outcomes
<p>approved and basis for conclusion documents for International Standards on Auditing (ISAs) adopted as Canadian Auditing Standards (CASs) without Canadian amendments.</p>	<p>developing standards and the PIOB's oversight continue to be effective.</p> <p>In addition, AASOC concluded that the AASB followed its due process in approving revisions to CAS 250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>.</p>

For made-in-Canada standards proposed by the AASB, AASOC reviews the AASB's conclusions at various stages throughout the project, including when:

- the project proposal is approved;
- the exposure draft is approved;
- comments received on exposure are reviewed; and
- when the final standard is approved.

For Canadian amendments proposed by the AASB to the IAASB requirements in ISAs, AASOC observed whether the AASB followed due process in developing such proposals.

AASOC Actions	Outcomes
<p>Review compliance with due process, including a review of final standards approved and basis for conclusion documents for:</p> <ul style="list-style-type: none"> • made-in-Canada standards; and • ISAs adopted as CASs with Canadian amendments. 	<p>AASOC concluded that the AASB followed due process in approving Canadian Standard on Association (CSOA) 5000, <i>Use of the Practitioner's Communication or Name</i>.</p>

Conclusion

AASOC observers continue to be of the view that focus sheets prepared for meetings provided useful information and a focus for observation. Additionally, AASOC members have commented that reports prepared by the AASOC observers have been informative.

AASOC's oversight of the due process for developing and issuing standards has been performed in accordance with AASOC's policies.

Recommendations for improvement of the oversight process

The Quality Assurance Committee has no recommendations for improvement.

Oversight of activities of the Independence Task Force

In 2015, AASOC had discussions with the Public Trust Committee on the process for setting independence rules for the accounting profession in Canada. In its 2015-2016 report, the Quality Assurance Committee recommended that AASOC follow up with the Public Trust Committee on changes made to processes as a result of the discussions. AASOC did not follow up with the Public Trust Committee in 2016-2017 for a number of reasons. A new Chair was appointed late in 2016-2017. In addition, due to resource constraints, the Independence Task Force did not meet during the year.

AASOC Actions	Outcomes
Review compliance with due process, including a review of final rules.	N/A – the Independence Task Force did not finalize any rules during the year.

Conclusion

No oversight activities took place during the year. However, the Chair of the Independence Task Force continued to give regular updates to AASOC on activities of the Independence Task Force.

Recommendations for improvement of the oversight process

The Quality Assurance Committee recommends that AASOC meet with the new Chair of the Public Trust Committee to follow up on the 2015 discussions.

2. Annual review of the oversight of the composition of the AASB and AASOC

Annually, the AASOC Nominating Committee evaluates:

- the capability, competence and diversity of the members of the AASB, and the effectiveness of the AASB's self-evaluation process; and
- the capability, competence and diversity of the members of AASOC, and independence of AASOC as a whole in relation to the AASB.

The AASOC Nominating Committee reports annually on its evaluation to AASOC.

The Quality Assurance Committee reviews the oversight process of the Nominating Committee.

AASOC Actions	Outcomes
Criteria were established against which capabilities, competence, diversity and objectivity of the AASB and AASOC members in carrying out their responsibilities can be evaluated.	Candidates for the AASB and AASOC for terms beginning April 1, 2017 were considered in light of established criteria.
The results of the evaluation were reported to AASOC by the Nominating Committee and the report was noted in the meeting minutes.	Criteria were used to assess potential new members of the AASB and AASOC. The AASOC Nominating Committee made recommendations regarding appointments based on these criteria and interviews with potential appointees.
AASOC reviewed the AASB's self-evaluation process in the year.	Results of the AASB's 2016 self assessment were reviewed at AASOC's February 16, 2017 meeting.
A survey addressing meeting effectiveness was completed by the AASOC members following each AASOC meeting and the results tabulated by staff and reported to the Chair.	Surveys were completed by a majority of the AASOC members following each meeting. Results were distributed to AASOC at subsequent meetings. Changes were made to agendas and content and timing of meeting material to respond to comments raised in the survey responses.
Where significant issues were identified during the year regarding an individual member of AASOC, the AASOC Chair or a designate discussed with individual members their performance at meetings over the past year.	No issues were identified that required follow up with individual members by the AASOC Chair or a designate.
A survey of AASOC members focusing on the overall effectiveness of AASOC was conducted and the results were reported to AASOC by the Chair.	The annual survey of AASOC members was conducted in early 2016 and results discussed at the April 7, 2016 meeting. No significant issues were noted. The annual survey for 2016 is underway and will be reviewed at AASOC's April 20, 2017 meeting.

Conclusion

AASOC's oversight of the composition of AASOC and the AASB has been performed in accordance with AASOC's policies.

Recommendations for improvement of the oversight process

The terms of five AASOC members ended on March 31, 2017, resulting in considerable turnover in membership on one date. AASOC's Terms of Reference highlight the importance of staggering the terms of AASOC members, which will be addressed on a go forward basis.

3. Triennial review of AASOC's Terms of Reference and Oversight Framework and Operating Plan

AASOC Actions	Outcomes
AASOC carried out a comprehensive review of its Terms of Reference in 2012. Monitoring of international events and oversight of the Independence Task Force were added to the Terms of Reference, approved by AASOC and ratified by the Board of Directors of CPA Canada (the CICA at the time of approval).	The triennial review of AASOC's Terms of Reference and Oversight Framework and Operating Plan initially planned for 2015 has been intentionally delayed. This delay will allow AASOC to align its comprehensive review with other Canadian boards and oversight council. The review was started in 2016-2017 in conjunction with an overall review of the effectiveness of the Accounting Standards Oversight Council and AASOC. AASOC expects to complete its review in 2017-2018.

Conclusion

AASOC's review of its Terms of Reference, the Oversight Framework and Operating Plan and the Quality Assurance Process for Standard-setting Oversight is expected to be completed in 2017-2018, in conjunction with the review of the effectiveness of the oversight councils.

Recommendations for improvement of the oversight process

The Quality Assurance Committee has no recommendations for improvement.

Other matters

AASOC and the Accounting Standards Oversight Council established a joint subcommittee that is reviewing the effectiveness of the two Councils. This includes comparing the Terms of Reference, nature and purpose of their various committees and the processes followed. The subcommittee expects to complete its review and issue recommendations to both Councils during 2017-2018.

AASOC formally established a Strategy Committee in 2016-2017, which will oversee the activities of the AASB as it develops its work plans and strategic plan. AASOC also appointed members to its Communications Committee, which is working with the Communications Manager for Standards, to

develop a communication plan for AASOC. Both of these Committees will assist AASOC in strengthening the oversight process.

In addition, AASOC completed work on and posted a paper, "[What the Public Interest Means to AASOC](#)" to the Financial Reporting and Assurance Standards Canada website. In lieu of a definition of "public interest", the paper outlines a series of considerations which, in AASOC's view, would be made in assessing public interest.