



# AUDITING AND ASSURANCE STANDARD SETTING OVERSIGHT IN CANADA

## OVERSIGHT FRAMEWORK AND OPERATING PLAN

### Introduction

1. The AASOC has approved the following requirements for an ongoing work program to ensure:
  - the credibility of the Auditing and Assurance Standards Board's (AASB) due process for setting standards for audits, and other assurance and related services;<sup>1</sup> and
  - that the AASB follows its due process in setting standards.
2. The description of the term “public interest” in Appendix 1, as it relates to standard setting in Canada, is used as a reference point for purposes of these requirements.
3. Requirements are stated in bold text. The requirements are not intended to cover all aspects of oversight of standard setting in Canada. For example, topics such as oversight of the appointment of AASB members and processes for bringing information to the table relevant to the development of standards that might not otherwise be available to the AASB are not covered.
4. These requirements may require periodic revision over time to accommodate changes in the standard-setting process, changing views on oversight and practical issues as they arise.
5. The AASOC, in conjunction with the AASB, has prepared this framework setting out the objectives of standard setting in Canada and the roles of the AASOC and the AASB respectively.
6. It is possible that the AASOC will also have a role in overseeing the convergence of Canadian independence standards with international standards and, to the extent that differences continue to exist, with US standards. This role of the AASOC, and its interaction with the setting of auditing and assurance standards in Canada, will be developed as the situation unfolds.
7. Appendix 2 contains an annual activity cycle for accomplishment by the AASOC of many of the requirements included in this document. Agenda time for requirements not occurring on an annual basis will be allocated as these actions are required.

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<sup>1</sup> Standards for audits and other assurance and related services include guidelines issued by the AASB.

## OVERARCHING ISSUES

### A Elements of credibility of the assurance standard-setting process

8. As stated in Appendix 1, *Meaning of the Term “Public Interest”*:
- “The audit process, the standards by which the audit is conducted, and the manner in which the auditor communicates with potential users of financial reports, are major contributors to the quality of financial reporting. Thus, it is in the public interest that stakeholders in a business enterprise<sup>2</sup> have confidence in the quality of auditing standards and the standards governing those communications.

Confidence in the quality of these standards is dependent on the quality of the standards themselves as well as the credibility of the process by which the standards are set.”

Credibility is fundamental to the assurance standard-setting process.

9. For a standard-setting process to be credible, at a minimum it must include the following elements:
- 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.
  - 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.
10. Assessing the credibility of the standard setting process includes determining that the design of the system addresses all of the above elements and that adherence to the elements is monitored by the AASB on a regular basis. It is equally important that the AASOC has

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<sup>2</sup> The same case can be made for non-business enterprises with third party reporting requirements.

an understanding and appreciation of the key steps in the process and that it assess the AASB's due process against all of the points in paragraph 9. The AASB has undertaken to provide the AASOC with an overview of the standard-setting approach, and any changes which may occur from time to time. In particular, the AASB will provide such an overview to any new members joining the AASOC as part of their orientation.

11. In assessing the credibility of the standard-setting process, it is assumed that the AASOC will be able to place significant reliance on the oversight process of the Public Interest Oversight Board (PIOB) for standards issued by the International Auditing and Assurance Standards Board (IAASB) that are adopted in Canada. Section E of this document sets out the nature and extent of procedures the AASOC deems sufficient and appropriate to evaluate, assess and conclude on the adequacy of oversight of the IAASB standard-setting process by the PIOB.

## **B Analytical framework for evaluating credibility of both the Canadian standard-setting process and whether that process was followed by the AASB**

12. As a self-regulated profession, assurance providers in Canada must guard against setting assurance standards that put the interests of the profession ahead of those of the public. An objective and rigorous weighing and evaluation of public versus professional interests is essential to ensure that the standard-setting process is credible. This analysis must be transparent, timely and include adequate solicitation of stakeholders' views.
13. It is also important to weigh benefits expected to accrue from new standards against the cost of their implementation. While cost analysis is often possible, research has shown that quantification of benefits often proves problematic, and the process itself can, if taken to extremes, be exorbitantly costly. Having said that, the AASOC has determined that wherever possible, attempts must be made to weigh costs versus benefits as part of the standard-setting process.
14. **Analysis of public versus professional interests and analysis of benefits against costs in the Canadian context of auditing and assurance standard setting shall include:**
  - **A clear statement of the problem that requires a new or modified standard.**
  - **A clear statement of why and how the AASB expects the new or modified standard to resolve that problem.**
  - **Consideration of whether the standard proposes requirements that go beyond what is necessary to address the issue at hand.**
  - **Consideration of whether the standard proposed unduly limits professional behaviour beyond that required to protect the public interest.**
15. Additional analysis of the problem may be conducted, where such information is available, in terms of frequency of audit failures and how and why the new or modified standard is expected to reduce that frequency. This analysis may be more appropriate for audit-related

standards than for standards governing professional behaviour in activities not directly related to issuance of audit reports.

16. **Oversight of the consideration of new standards by the AASB shall include a review by the AASOC of the AASB's evaluation of public versus professional interests and the AASB's weighing of benefits to cost.**
17. The degree of rigour of review by the AASB may be more significant when considering made-in-Canada standards and Canadian amendments to IAASB standards than for consideration of adoption of unchanged IAASB standards.

## **EVALUATION OF CREDIBILITY OF THE CANADIAN STANDARD-SETTING PROCESS**

18. The AASOC has emphasized the need for a systematic review of the AASB's overall approach to the standard-setting process and the process for identification of emerging issues potentially requiring new standards. This Section of the document set out the elements of that review.

### **C Oversight of the tri-annual AASB strategic planning process**

19. The AASB undertakes a tri-annual strategic planning process to identify stakeholder concerns, establish medium-term priorities and set a framework for the detailed annual work plans for the upcoming three years. The AASB takes into account the tri-annual plan issued by the IAASB in determining Canadian plans and priorities. The AASB also monitors the standard-setting environment and, if warranted, recommends changes to the tri-annual plan before the three-year period expires. The AASB prepares a comprehensive report for public distribution at the conclusion of its tri-annual strategic planning process.
20. The tri-annual planning process must be seen to be credible for the standards emerging from it to be perceived as being of uniformly high quality and clarity and set in the public interest. For that to happen, the elements of credibility listed in paragraph 9 must be embedded in the tri-annual strategic process.
21. **The AASOC shall review the tri-annual strategic planning process with the AASB at the planning stage to ensure that:**
  - **The process is transparent and is expected to be well understood by stakeholders.**
  - **There is a plan for widespread and effective communication with stakeholders to solicit their involvement with the process.**
  - **Sufficiently capable and competent professional resources are available for all stages of the process.**
  - **The AASB's planning process will be conducted on a timely basis.**
  - **The plan is effectively coordinated with the IAASB tri-annual planning process.**
  - **Conclusions reached and consideration and disposition of stakeholder comments will be adequately and effectively communicated and documented.**
22. **Following preparation of the AASB report, the AASOC shall publicly document whether, in the AASOC's opinion, the process was credible and, if necessary, propose recommendations for improvement of future reviews.**

## **D Oversight of the detailed annual AASB work plan**

23. The AASB prepares a detailed annual work plan designed to accomplish the goals set out in the tri-annual strategic planning process. The AASB compares progress and accomplishments against this detailed work plan. The AASB summarizes the year's activities and accomplishments in its annual report to stakeholders.
24. **The AASB shall discuss with the AASOC its proposed work plan for the upcoming year and shall describe how the proposed detailed annual work plan is expected to contribute to achieving the objectives of the tri-annual strategic plan.**
25. **At the conclusion of the preparation of each AASB detailed annual work plan, the AASOC shall publicly document whether, in the AASOC's opinion, the AASB process was credible and, if necessary, propose recommendations for improvements to the process of developing future work plans.**
26. **The AASB shall discuss with the AASOC, in advance of preparation of the AASB's annual report, the AASB's performance during the past year with reference to the detailed annual work plan. The AASOC shall measure the year's performance in terms of:**
  - **the elements of credibility as specified in paragraph 9; and**
  - **whether actual performance met, exceeded, or did not meet expectations.**
27. **The AASOC and the AASB shall, unless not practicable, hold the discussions referred to in paragraph 26 prior to preparation of the AASOC's own annual statement on the credibility of the Canadian standard-setting process.**

## **EVALUATION OF THE AASB'S COMPLIANCE WITH ITS DUE PROCESS IN SETTING EACH STANDARD**

28. The credibility of the standard-setting process must be evaluated for all standards set by the AASB. The AASOC has concluded that the process of evaluation for unchanged to-be-adopted IAASB standards will ordinarily not be as intensive as the process for evaluating made-in-Canada standards and amendments to IAASB standards adopted. This section of the document deals with review processes for all three types of standards.
29. The effort to ensure the credibility of a made-in-Canada standard should primarily occur at the initial stages of the standard's development. Oversight of IAASB standards adopted with Canadian amendments should occur as early as is practicable in the consideration of an amendment.
30. Notwithstanding the need for upfront effort, reviewing compliance with due process and assessing consideration of public interest will occur throughout the development of a standard. Consequently, requirements for evaluation of due process and assessing consideration of public interest are set out in section F for the initial stages of projects (pre-exposure draft stages), and in section G for the latter stages of project development and finalization.
31. **Whenever possible, an AASOC member shall attend each AASB meeting.**
32. **Following approval by the AASB of each standard, the AASB shall give to the AASOC a written representation that, in AASB staff's opinion, due process was followed in the standard-setting process.**

### **E Oversight of Canadian due process for adoption of unchanged IAASB standards**

33. The IAASB follows a rigorous regimen of due process. This is overseen by an independent oversight body, the PIOB. All standards passed by the IAASB must first be approved by the PIOB before coming into force. This process is widely seen to be credible and the standards produced are perceived to be of high quality and clarity. The IAASB process includes significant AASB input at all stages.
34. **Notwithstanding the confidence placed in the IAASB standard-setting process, the AASOC shall evaluate, assess and conclude on the adequacy of PIOB oversight to ensure that all unchanged IAASB standards adopted in Canada continue to be subject to the assumed rigorous level of due process. This evaluation and assessment shall include:**
  - **discussion of the IAASB and PIOB annual reports on an annual basis; and**

— **follow-up of any concerns about due process or any other matters identified in the reports with appropriate persons.**<sup>3</sup>

35. The AASB follows a rigorous regimen of due process in providing timely input to the IAASB as part of the development of the International Standards on Auditing (ISAs) and in determining whether to adopt an ISA as a Canadian Auditing Standard (CAS), with or without a Canadian amendment. Timely input to the IAASB process includes, for example, populating IAASB Task Forces with Canadian volunteers, seconding CICA staff to IAASB Task Forces, and providing comments at all critical phases of a standard's development.
36. **In its annual discussions with the AASOC (see paragraph 26), the AASB shall report whether its efforts in providing timely input to IAASB standards development have met, exceeded, or did not meet expectations in relation to the annual plan.**

## **F Oversight of proposals for made-in-Canada standards and Canadian amendments to IAASB standards adopted**

37. A rigorous oversight process is necessary for made-in-Canada standards and Canadian amendments to IAASB standards adopted. As part of ensuring that standards set are credible, the AASB applies the analytical framework set out in Section B to all such proposed standards.
38. **For made-in-Canada standards proposed by the AASB, the AASOC shall review the AASB's conclusions based on the analytical framework at pre-exposure draft stages.**
39. **For Canadian amendments proposed by the AASB to IAASB requirements in an international standard, the AASOC shall determine whether the AASB followed due process in developing such proposals. This review shall occur as early as is practicable in the consideration of the amendment.**
40. The extent of due process when Canadian amendments to an international standard are proposed may be influenced by the need for timely implementation of the standard. This is because the need for a Canadian amendment to an IAASB standard may only become apparent towards the end of the standard-setting process and the public interest may not be served by undue delays in the process.
41. **The AASOC shall request the AASB to regularly brief the AASOC on contentious matters and on the process for adoption of all amendments to IAASB requirements,**

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<sup>3</sup> Canada will not always have a member on the PIOB or the IAASB and so AASOC will not always have direct access to representatives from these bodies. When direct access is not available, the AASOC should determine what alternative procedures are required to evaluate the adequacy of the oversight.



**within a framework of maintaining the commitment to develop the corresponding CASs in tandem with the ISAs.**

42. The AASOC has concluded that application of the analytical framework by the AASB and review by the AASOC must begin at the pre-exposure draft stages of the standard-setting process. The AASOC's review of the AASB's application of the analytical framework is less likely to influence the credibility of standards if it occurs late in the process of development and it will likely be less efficient.
43. **The AASOC's review of the AASB's application of the analytical framework shall occur at the project proposal stage of made-in-Canada standards and as early as is practicable in the consideration of Canadian amendments to IAASB standards. Initial conclusions reached shall be revisited if significant changes in project direction subsequently occur.**

## **G Oversight of ongoing development of made-in-Canada standards and Canadian amendments to IAASB to-be-adopted standards**

44. It is important that reviewing compliance with due process and assessing consideration of public interest occur throughout the development of a standard. Key due process procedures occurring after an exposure draft has been issued include the AASB's monitoring to ensure that adequate solicitation and documented consideration of stakeholder comments have been achieved. It is also important that contentious issues arising during and after the exposure draft stage are resolved by the AASB in a transparent manner using the analytical framework.
45. **The AASB shall advise the AASOC of any contentious issues arising during and after the exposure draft stage of made-in-Canada standards and Canadian amendments to IAASB requirements, and of how any issues were resolved.**
46. **The AASB shall provide to the AASOC a Basis for Conclusions Report addressing substantive issues arising in the course of development and approval of every standard. When practical, this report shall be available for review by the AASOC prior to the standard being published.**

# OTHER TOPICS

## H Selection of topics for review and discussion by the AASOC

- 47. It is important that the selection of standards and/or issues for review by the AASOC be made based on professional judgment and a standard’s relative degree of perceived importance to both stakeholders and the profession.
- 48. **In advance of every AASOC meeting, the Chair of the AASOC shall discuss with the Chair of the AASB and the CICA Director of Auditing and Assurance Standards the status of standards being developed in order to identify issues that require discussion at the upcoming AASOC meeting.**

## I Documentation of deliberations and conclusions reached by the AASOC

- 49. Documentation of the standard-setting process and of the due process applied to each standard developed is essential to ensure the credibility of standard setting. Similarly, oversight of standard setting in Canada must also be publicly documented if it is to be seen to add credibility to the standard-setting process. While documentation of the AASOC’s oversight of the standard-setting process need not be onerous, a protocol needs to be developed to meet this need.
- 50. **The AASOC shall establish policies and procedures for public documentation of its conclusions.**

## J Resource requirements of the AASOC

- 51. The AASOC will need to consider its resource requirements, including appropriate staffing and demands on members’ time. The ability of the AASOC to obtain sufficient resources is essential for it to maintain the perception of objectivity.

## K Estimate of annual AASOC member time commitments

- 52. An estimate of the annual time commitment for AASOC members, excluding the Chair, is as follows. (Note that this estimate excludes both member travel time, where applicable, and additional work if the Independence Standards Board (ISB) comes under the umbrella of the AASOC).

<b>Activity</b>	<b>Time estimate</b>
Four full-day AASOC meetings per year	32 hours
Preparation for AASOC meetings	12 hours
Preparation for and attendance at one AASB meeting	<u>20</u> hours
Total	<u>64</u> hours plus or minus 12 hours

### **Meaning of the term “public interest”**

In the broadest sense, it is in the public interest that stakeholders in any business enterprise can confidently rely on the quality of financial reporting. It is also in the broad public interest that investors and lenders can depend on the consistency and comparability of this reporting to support evaluations of a single investment or competing investment opportunities.

There are many factors that influence the quality and comparability of financial reporting. These factors include the quality of the accounting standards governing the content and presentation of financial reports, the expertise of the preparers of the statements and the existence and effectiveness of an independent audit.

The audit process, the standards by which the audit is conducted, and the manner in which the auditor communicates with potential users of financial reports, are major contributors to the quality of financial reporting. Thus it is in the public interest that stakeholders in a business enterprise have confidence in the quality of auditing standards and the standards governing those communications.

Confidence in the quality of these standards is dependent on the quality of the standards themselves as well as the credibility of the process by which the standards are set.

In this context, it is in the public interest that auditing and other related standards are of uniformly high quality and clarity and that the process for setting the standards is credible so that the standards produced are perceived to be acceptable.

AASOC ANNUAL ACTIVITY CYCLE

x – AASOC

**x – Nominating Committee**

	<i>1st Qtr</i>	May	<i>2<sup>nd</sup> Qtr</i>	Oct*	<i>Oct/ Nov</i>	<i>3rd Qtr</i>	Dec	<i>4th Qtr</i>	Jan	Jan/ Feb
AASOC orientation		x								
Review draft AASB annual report		x								
Prepare outline for AASOC annual report		x								
Finalize and publish AASOC annual report				x						
Review PIOB annual report [Operating Plan para. 34]		x								
Receive AASB activity update and status reports on due process for standards under development [Operating Plan, Sections F and G]		x		x			x			x
Approve due process for standards finalized by AASB [Operating Plan, para. 32]		x		x			x			x
Receive reports on IAASB and PIOB activities [Operating Plan, para. 34]		x		x			x			x
<i>Consider retiring members and have preliminary discussion on AASB and AASOC potential new members (meet with individual potential members)</i>				x						
<i>Approve recommendations to AASOC on potential AASB and AASOC members</i>					x					
Approve new AASOC and AASB members				x			x			
<i>Complete nominations for AASB and AASOC (if required)</i>									x	
Approve new AASB and AASOC members (if required)										x
Receive AASB year-end report under the operating plan for the previous year [Operating Plan para. 26]		x								
Review AASB draft operating plan and budget for next fiscal year [Operating Plan para. 24]				x						
AASB draft operating plan – follow-up							x			
Nominating Committee Report				x			x			x
<i>Review results of AASB performance self-assessment</i>									x	
Annual effectiveness self-assessment review							x			
Review of the CPAB public report		x								

\* Second quarter meeting usually held in October due to scheduling difficulties around the international schedules.