



Exposure Draft **Proposed Quality** **Control, Auditing** **and Other Canadian** **Standards**

**Conforming Amendments to
Canadian Standards Resulting
from IAASB Conforming
Amendments to the IAASB
International Standards as a
Result of the Revised IESBA Code**

January 2020

COMMENTS TO THE AASB MUST BE RECEIVED BY
March 27, 2020

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#). Please address your response to:

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This Exposure Draft reflects proposals made by the Auditing and Assurance Standards Board (AASB) that it intends to include in the final standard, subject to deliberating comments received.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

HIGHLIGHTS

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to adopt with appropriate amendments, the conforming amendments to International standards issued by the International Auditing and Assurance Standards Board (IAASB).

Main features of the Exposure Draft

IAASB's Exposure Draft

In November 2019, the IAASB issued the [Exposure Draft, "Conforming Amendments to the IAASB International Standards as a Result of the Revised IESBA Code."](#) It proposes conforming amendments to IAASB standards as a result of revisions to the International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (including Independence Standards)* (the IESBA Code).

The AASB is committed to adopting International Standards on Quality Control (ISQCs) and International Standards on Auditing (ISAs) as Canadian Standards on Quality Control (CSQCs) and Canadian Auditing Standards (CASs), respectively.

The AASB's overriding goal is to adopt International standards without amendment. However, there may be circumstances where amendments are required. The Board has established criteria for making amendments to International standards adopted as Canadian standards (see [Appendix C](#)). When the Board makes amendments, such amendments are clearly identified in the Canadian standard and explained in the *Preface* to the CPA Canada Handbook – Assurance.

Since the IAASB is proposing conforming amendments to International standards that the AASB has adopted, the AASB needs to consider whether to make equivalent changes to Canadian standards.

Relevant ethical requirements in Canada

The IESBA Code is not applicable in Canada. Rather, the provincial accounting bodies set Codes of Professional Conduct. These Codes of Professional Conduct are not identical to the IESBA Code. Practitioners in Canada are generally required to comply with the rules of professional conduct/codes of ethics established by professional accounting bodies. Recognizing this, the AASB deals with references to the IESBA Code in Canadian standards that are adopted from International standards in the following manner:

- References to requirements in the IESBA Code in International standards are replaced by references to "relevant ethical requirements" in the equivalent Canadian standard, so that the Canadian standard aligns with provincial Codes of Professional Conduct. When the rules in the provincial Codes of Professional Conduct differ from the IESBA Code, the wording in the Canadian standard is changed. These changes result in a Canadian amendment paragraph, which is identified with "C" and tracked in the *Preface* to the CPA Canada Handbook – Assurance. The International standard wording is shown in square brackets at the end of the paragraph.
- References in requirements or application material to the IESBA Code as an alternative or an example in an International standard are not changed in the equivalent Canadian standard.

The AASB proposes to deal with the conforming amendments proposed in the IAASB Exposure Draft consistently using the above approach.

Proposed changes

The IAASB Exposure Draft is available on its [website](#). The following table summarizes key changes the IAASB is proposing in its Exposure Draft, implications for Canadian standards and how the AASB is responding.

Proposed IAASB Change	Implications for Canadian Standards	Proposed AASB Change
Changes to International standards to reflect rules in the IESBA Code dealing with breaches of ethical requirements	The IESBA Code and the provincial Codes of Professional Conduct dealing with breaches of ethical requirements were changed in 2016. However, neither International standards nor Canadian standards were revised at that time. The IAASB Exposure Draft includes conforming amendments dealing with breaches of ethical requirements. The Canadian standards will be revised for these conforming amendments and are exposed for comment.	See Appendix A for the proposed revisions.
Changes to International standards to align with updated rules in the IESBA Code dealing with threats to compliance	Provincial Codes of Professional Conduct do not include changes dealing with threats to compliance. The Canadian standards will not be changed. As a result, the Canadian standard will be different from the International standard. This will create new Canadian amendment paragraphs.	See Appendix B for an example of how this will be reflected in Canadian standards, and a list of standards and paragraphs affected.
Changes to the title of the IESBA Code	Where Canadian standards refer to the IESBA Code, the title will be updated in the Canadian standards, consistent with the IAASB Exposure Draft.	As these revisions are minor, the AASB is not including details in this Exposure Draft.
Changes to numbering in the IESBA Code	Where Canadian standards refer to rules in the IESBA Code, the references will be updated in the Canadian standards, consistent with the IAASB Exposure Draft.	As these revisions are minor, the AASB is not including details in this Exposure Draft.

The AASB is proposing changes to only Canadian Standards adopted from International Standards. Canadian Standards not adopted from International Standards, including some Canadian Standards on Assurance Engagements and Canadian Standards on Related Services will not change.

Comments requested

The AASB requests comments on any aspect of its proposed changes. Comments are most helpful when they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

The AASB seeks views on the following questions:

1. Do you agree with the proposed revisions to Canadian standards as set out in the Appendices?
2. Are there any other revisions that the IAASB proposed in its Exposure Draft that should also be made to Canadian standards?

The deadline for providing your comments to the AASB is March 27, 2020.

Appendix A

Changes to reflect rules in the provincial Codes of Conduct dealing with breaches of ethical requirements

The following sets out proposed revisions to the CPA Canada Handbook – Assurance to address changes to the provincial Codes of Professional Conduct dealing with breaches of ethical requirements.

CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

A9. The fundamental principles are reinforced in particular by:

- The leadership of the firm;
- Education and training;
- Monitoring; and
- A process for dealing with breaches ~~non-compliance~~.

A11. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating a breach ~~non-compliance~~, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.

CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*

A19. Canadian Standard on Quality Control (CSQC) 1⁹ or requirements that are at least as demanding,¹⁰ deal with the firm's responsibilities to establish and maintain its system of quality control for audit engagements. CSQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.¹¹ CAS 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements. These include remaining alert, through observation and making inquiries as necessary, for evidence of ~~non-compliance with~~ breaches of relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have ~~not complied with~~ breached relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.¹² CAS 220 recognizes that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.

CAS 220, *Quality Control for an Audit of Financial Statements*

9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of ~~non-compliance with~~ breaches of relevant ethical requirements by members of the engagement team. (Ref: Para. CA4-A5)
10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have ~~not complied with~~ breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)

9 CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

10 CAS 220, *Quality Control for an Audit of Financial Statements*, paragraph 2

11 CSQC 1, paragraphs 20-25

12 CAS 220, paragraphs 9-12

CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*

34. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of ~~non-compliance with breaches of~~ relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have ~~not complied with breached~~ relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

CSRE 2400, *Engagements to Review Historical Financial Statements*

25. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of ~~non-compliance with breaches of~~ relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have ~~not complied with breached~~ relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

Appendix B

Changes where the provincial Codes of Professional Conduct have not changed, but the International standard is being revised

The following sets out the proposed revisions to the CPA Canada Handbook – Assurance to address changes to the International standard. The paragraph references will be added to the table in Appendix 2 of the *Preface* to the CPA Canada Handbook – Assurance.

CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

C21. ...

- C(b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. [In ISQC 1, this paragraph states: Identify threats to independence, evaluate whether the identified threats are at an acceptable level, and address them by eliminating the circumstances, applying safeguards, or withdrawing from the engagement.]

The paragraphs that would contain similar changes are as follows:

Standard	Paragraphs
CSQC 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i>	22(b); 25(a); CA12, A13
CAS 220, <i>Quality Control for an Audit of Financial Statements</i>	11; A6
CAS 260, <i>Communication with Those Charged with Governance</i>	17(a)(ii); A30; A49
CAS 620, <i>Using the Work of an Auditor's Expert</i>	A18; A19
CAS 700, <i>Forming an Opinion and Reporting on Financial Statements</i>	C40(b)
CSAE 3000, <i>Attestation Engagements Other than Audits or Reviews of Historical Financial Information</i>	A128
CSAE 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i>	A6

Appendix C

Amendment Criteria Used by the AASB When Adopting ISQCs as CSQCs, ISAs as CASs and ISAEs as CSAEs

With respect to the adoption of International Standards on Auditing (ISAs)¹ as Canadian Auditing Standards (CASs), and the adoption of an International Standard on Assurance Engagements (ISAE) as a Canadian Standard on Assurance Engagement (CSAE), on a case-by-case basis, the Auditing and Assurance Standards Board's (AASB) overriding goal is to adopt ISAs into the Assurance Handbook without amendment. However, there may be circumstances where amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISAs:

1. The AASB will limit additions to an ISA to those required to comply with Canadian legal and regulatory requirements.²
2. The AASB will limit deletions from, or other amendments to, an ISA to the following:
 - (a) The elimination of options (alternatives) provided for in the ISA.
 - (b) Requirements or guidance, the application of which Canadian law or regulation² does not permit, or which require amendment to be consistent with law or regulation.
 - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
 - (a) Additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
 - (b) Deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISA will be highlighted in exposure drafts of proposed Canadian standards. The AASB will indicate the reasoning for the amendments and respondents will be invited to comment on them, including when the amendment will not result in convergence with the ISA in accordance with the International Auditing and Assurance Standards Board's guide for national standard setters. Amendments to ISAs will be separately identified in the final Assurance Handbook material.

1 Reference to ISAs in this appendix also includes reference to International Standards on Quality Control (ISQCs) adopted as Canadian Standards on Quality Control (CSQCs) and relevant International Standards on Assurance Engagements (ISAEs) adopted as Canadian Standards on Assurance Engagements (CSAEs) by the AASB, where applicable.

2 Canadian incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian GAAP. Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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