

Auditor's Consent to the Use of the Auditor's Report in Connection with a Designated Document

March 2019

Section 7170

CPA Canada Handbook – Assurance

Prepared by the staff of the Auditing and Assurance Standards Board

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH A DESIGNATED DOCUMENT, Section 7170.

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a summary of the AASB's objectives in revising Section 7170, the public exposure and approval steps for this project and how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft. This information is set out below.

Background

In June 2017, the AASB approved a project to revise Section 7500.¹ One of the issues considered as part of the Section 7500 revision project is how the CPA Handbook – Assurance should be structured to appropriately address standards on providing consent. The current structure may be confusing and may result in practitioners not applying the appropriate work effort when requested to consent.

Superseded Section 7170² dealt with an auditor's consent in connection with a business acquisition report. The AASB believes that the concepts within the superseded Section 7170 are also appropriate for addressing consent to the use of the auditor's report in connection with other documents filed with securities regulatory authorities. Therefore, rather than making extensive revisions to Section 7500 to reflect improvements already made in the superseded Section 7170, the AASB decided that the best approach would be to expand the scope of the superseded Section 7170 and withdraw Section 7500.

In May 2018, the AASB issued an Exposure Draft of revised Section 7170 (ED-7170). Four written responses to ED-7170 were received. In addition to the written responses, three consultation sessions with various stakeholders were held.

The AASB approved the revised Section 7170 at its meeting in December 2018. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in developing Section 7170 and related conforming amendments prior to their issuance in the CPA Canada Handbook – Assurance.

AASB's Objective in Revising Section 7170

The AASB's objective in revising Section 7170 is to address the auditor's responsibilities in responding to requests to consent to the use of the auditor's report in connection with designated documents. The public interest considerations in revising Section 7170 include:

- Clarifying the structure of the CPA Canada Handbook – Assurance;
- Addressing the auditor's deemed association with the Annual Information Form in Section 7500;
- Setting out appropriate work effort;
- Clarifying the auditor's responsibilities relating to Other Information under CAS 720;³ and
- Addressing the format of the auditor's consent.

¹ AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, Section 7500

² AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT INCLUDED IN A BUSINESS ACQUISITION REPORT, Section 7170

³ CAS 720, *The Auditor's Responsibilities Relating to Other Information*

Significant Matters Arising from Comments in Response to ED-7170

Inclusion of the Management Discussion and Analysis and the Management Report of Fund Performance within the Scope of Section 7170

1. A Management Discussion and Analysis (MD&A) issued by a reporting issuer is currently within the scope of existing Section 7500. ED-7170 proposed to exclude the MD&A from the scope of the revised Section 7170. This is because auditors are rarely requested to consent to the use of the auditor's report in connection with the MD&A. ED-7170 further suggested that if the auditor is requested to consent in connection with the MD&A, the auditor would refer to CSOA 5000. All respondents to ED-7170 agreed with the proposed approach.
2. Upon finalizing the revised Section 7170, the AASB reconsidered this position and is now of the view that the MD&A issued by reporting issuers other than investment funds and the Management Report of Fund Performance (MRFP) issued by investment funds under the provisions of Canadian securities legislation should be within the scope of revised Section 7170 for the following reasons:

- **The change in scope enhances consistency in practice**

As set out in paragraph CA5A of revised CAS 720, "in Canada, the Management Discussion and Analysis issued by reporting issuers other than investment funds and the Management Report of Fund Performance issued by investment funds under the provisions of Canadian securities legislation, as well as equivalent documents in the public sector such as the Financial Statement Discussion and Analysis, would normally be considered to be within the scope of CAS 720. These documents are meant to complement and supplement the financial statements. If an entity issues an annual report, the annual report would also be within the scope of CAS 720 if it meets the definition set out in paragraph 12(a)."

Expanding the scope of Section 7170 to cover the auditor's consent in connection with all the documents described in paragraph CA5A of CAS 720 that are filed with securities regulatory authorities (i.e., the annual report, MD&A and MRFP) would enhance consistency in practice.

- **The change in scope is not expected to be onerous**

The MD&A is already covered by existing Section 7500, which has similar requirements as the revised Section 7170. No concerns have been raised regarding the required work effort. Further, the MD&A and MRFP are covered by CAS 720. The auditor would have already performed a substantial amount of the work required by revised Section 7170 when performing the procedures under CAS 720. Accordingly, requiring the auditor to perform the procedures in revised Section 7170 when providing consent in connection with the MD&A and MRFP is not expected to be onerous.

Clarification of the Scope

3. Comments from one stakeholder on ED-7170 suggest that there may be some confusion regarding the scope of the revised Section 7170. In response to the stakeholder's comments, the AASB:
 - specified the designated documents within the scope of revised Section 7170 in paragraph 1; and
 - clarified that an annual report as contemplated in revised Section 7170 may differ from an annual report as defined in CAS 720 in paragraph A1.
4. In addition to clarifying the scope of documents within the scope of revised Section 7170, the AASB clarified the steps that the auditor may take if the auditor becomes aware of an inappropriate use of the auditor's name, including circumstances when the auditor would refer to CSOA 5000 in paragraph A4.

5. Further, through analyzing respondents' comments to the exposure draft, the AASB identified a number of matters that will be addressed by non-authoritative guidance. These include the auditor's considerations when requested to consent in connection with a designated document that incorporates by reference another document.

Terms of Engagement

6. Paragraph 8(b) of revised Section 7170 included a requirement for the terms of engagement to include management's responsibilities. A respondent pointed out that the illustrative engagement letter did not include management's responsibilities.
7. To better reflect management's responsibilities in the illustrative engagement letter, the AASB developed a new section on management's responsibilities in Appendix 2 of revised Section 7170. A conforming amendment is made to include a similar section on management's responsibilities in the illustrative engagement letter in Section 7150.

Work Effort – Other Information

8. ED-7170 proposed to require the auditor to read the other information and to take appropriate action if "the auditor becomes aware of a material inconsistency between that information and the audited financial statements." A respondent questioned whether the auditor should also be required to consider inconsistencies between the other information and knowledge obtained during the audit or in performing the procedures in revised Section 7170.
9. The AASB agreed with the respondent that the auditor may have obtained information during the audit or in performing the procedures in Section 7170 that may be important in the context of the other information. Accordingly, the AASB expanded paragraph 13 to require the auditor to consider knowledge obtained during the audit or in performing the procedures in revised Section 7170.

Format of the Auditor's Consent

10. Similar to recent standards dealing with consent, ED-7170 proposed that the auditor's consent may be provided either orally or in writing. Most stakeholders indicated that they always issue (or request their auditors to issue) the consent in writing. The main reason provided is that issuing the consent in writing is not onerous and may help avoid misunderstanding as to whether the auditor provided consent.
11. However, views are mixed as to whether the consent should be required to be in writing. Many auditors who indicated that they would always issue (or entities that request their auditors to issue) a written consent nonetheless expressed the view that they agreed with the flexibility for the consent to be provided orally. The main reason provided is that the flexibility does not hinder the current practice of auditors issuing (or entities requesting their auditors to issue) a written consent.
12. The AASB carefully deliberated the stakeholders' comments and did not identify any compelling reason to require the consent to be provided in writing. The AASB reaffirmed its position that the auditor's consent can be provided orally or in writing.

Effective Date

13. The effective date of the revised Section 7170 was proposed to be for consents issued on or after June 1, 2019. Most stakeholders agreed with the proposed effective date. The stakeholders indicated that the revised Section 7170 is generally consistent with existing practice and can be effectively implemented by the proposed effective date. One stakeholder suggested deferring the effective date by one year after it is issued to allow for sufficient time for effective implementation.

14. The AASB agrees with the view expressed by most stakeholders that the proposed revised Section 7170 is generally consistent with existing practice and can be effectively implemented within a short period of time. Therefore, no change to the effective date is made.

List of Respondents to the Exposure Draft

La vérificatrice générale du Québec

Grant Thornton and Raymond Chabot Grant Thornton – joint response

Pricewaterhouse Coopers LLP

Deloitte LLP

Summary of Stakeholders Consulted

Chartered Professional Accountants of British Columbia Public Company Forum

La vérificatrice générale du Québec

NAV Canada

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