

AASOC

Auditing and Assurance
Standards Oversight
Council



CSNAC

Conseil de surveillance
de la normalisation
en audit et certification

**AASOC Public Report
Year Ended August 31, 2011**

Table of Contents

3	About the Auditing and Assurance Standards Oversight Council
6	Message from the Chair
8	Overview of AASOC's Activities
12	Operating Costs
12	Looking Forward
13	AASOC Members

Abbreviations and Acronyms

AASB	Auditing and Assurance Standards Board
AASOC	Auditing and Assurance Standards Oversight Council
CA	Chartered Accountant
CAS	Canadian Auditing Standard
CICA	Canadian Institute of Chartered Accountants
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
ISA	International Standard on Auditing
ITF	Independence Task Force

About the Auditing and Assurance Standards Oversight Council

The mission of the Auditing and Assurance Standards Oversight Council (AASOC) is to serve the public interest by overseeing the activities of the Auditing and Assurance Standards Board (AASB) and the Independence Task Force of the CA Profession's Public Trust Committee in order to ensure that stakeholders have confidence in both the quality of auditing standards as well as the credibility of the process by which those standards are set.

The Council's Role

AASOC is an independent body established in October 2002 by Canada's Chartered Accountants to oversee the activities of the AASB. Reporting to the public and consisting of prominent leaders from business and regulators, it brings a broad perspective to complex issues facing standard setters, and supports the AASB in setting auditing, assurance and related services standards in Canada and in contributing to the development of internationally accepted assurance standards. The AASOC members, many of whom represent particular constituencies, include users, preparers of financial and other reports and auditors who provide assurance on these reports. AASOC also oversees the establishment of independence standards set by the CA profession to safeguard the public interest.

Responsibilities

The responsibilities of AASOC include:

- appointing members to AASOC and the AASB, including the Chairs and Vice-Chairs;
- providing input into the activities of the AASB, primarily in terms of its strategic direction and priorities;
- informing the AASB of the diversity of views represented on AASOC as well as the views of other individuals or groups with an interest in audit, assurance and related services standards;
- being satisfied that the standard setting process is appropriate and responsive to the public interest;
- overseeing the activities of the AASB, including monitoring and evaluating its performance, the fulfillment of its responsibilities, accomplishment of its work program and the use and adequacy of its resources.

AASOC recognizes that it is the AASB that has the authority to set auditing, assurance and related services standards.

Membership

The AASOC membership consists of not fewer than nine and not more than 13 senior members from business, finance, government, the accounting and legal professions and regulators. AASOC membership also includes senior representatives from public interest bodies, including the Canadian Public Accountability Board, the Canadian Securities Administrators, the Office of the Superintendent of Financial Institutions Canada and the international Public Interest Oversight Board. AASOC endeavors to ensure that its membership is diverse so as to provide a broad perspective of the complex issues facing auditors.

There are currently 12 voting members. Non-voting members are: the member from Canada on the International Auditing and Assurance Standards Board; the Chair of the AASB; the Vice-President, Standards; and the Director, Auditing and Assurance Standards.

Decision Making

Each member of AASOC votes according to his or her own independent views and opinions, not as representatives of any organization with which he or she is associated.

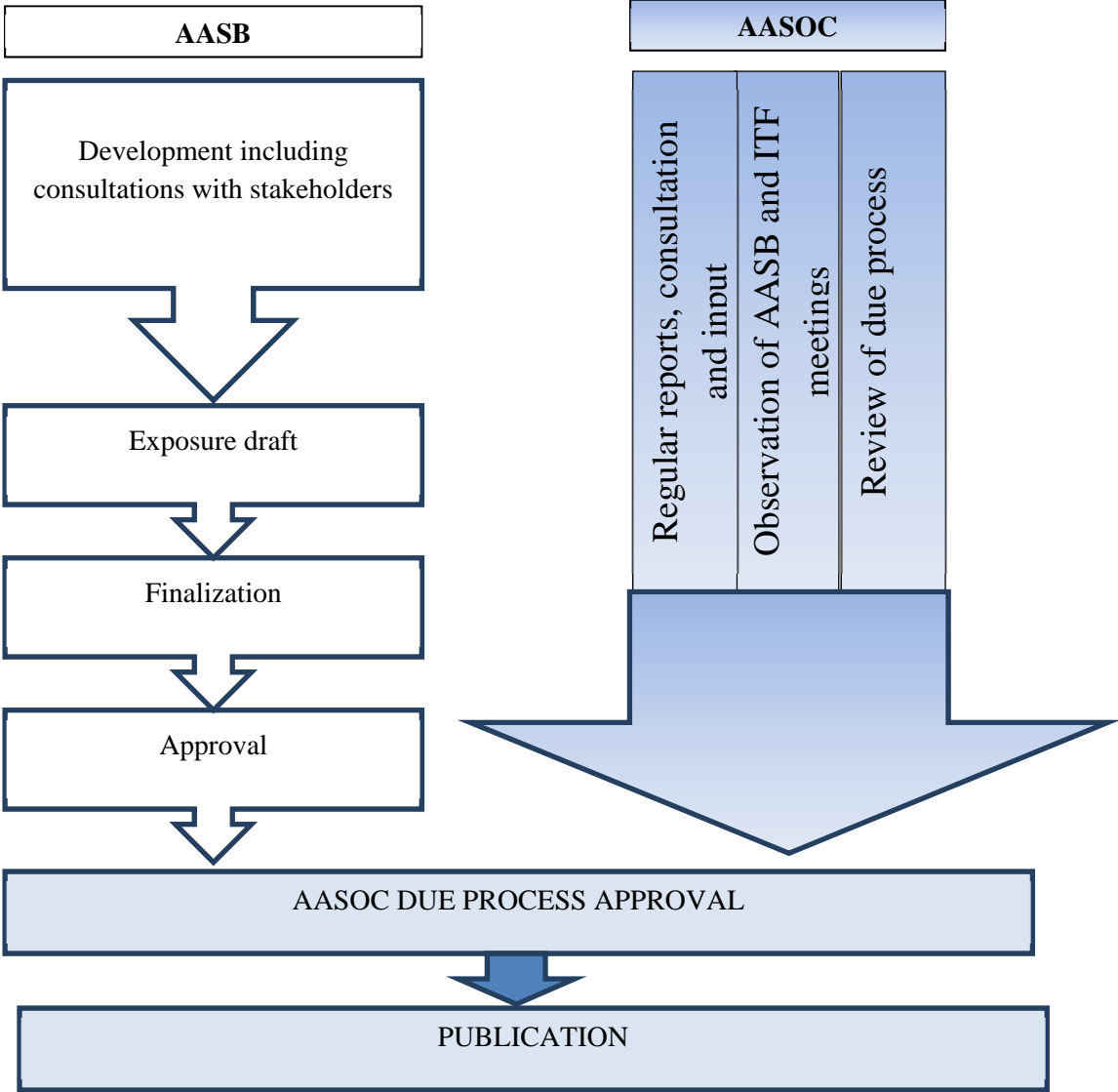
Transparency

Transparency is vital to AASOC's role. All meetings are open for public observation and agendas are posted on the AASOC website prior to each meeting. Minutes of all AASOC meetings, except for the *in camera* sessions, are posted on the website after they are approved.

AASOC is responsible for publicly reporting once a year on the performance of the AASB.

A website is maintained by AASOC – www.aasoc.ca – that provides visitors with an annual report, meeting minutes, member lists, terms of reference, and other related materials and contact information.

THE PROCESS OF STANDARD SETTING



Message from the Chair



It is my pleasure to present my first communication to you as Chair of the Auditing and Assurance Standards Oversight Council (AASOC).

With continuing significant concerns about the global economy, characterized by a sovereign debt crisis and fear about the possibility of double dip recession, the responsibility of auditors in helping to ensure the effective functioning of capital markets has perhaps never been more important. In recognition of the auditor's critical role, significant questions are being asked about the quality of audits and how that might be improved. Publications such as the European Commission Green Paper on Audit Policy, and the UK House of Lords Economic Affairs Committee report on auditors and market concentration, raise fundamental issues that will affect how audits evolve in the future. In some parts of the world, auditors are being asked why they have not been more effective watchdogs in providing warnings about the ability of some entities, such as large banks, to continue as going concerns. Fortunately, Canada has performed better than many industrialized nations during this economic downturn. However, we cannot afford to relax in our efforts to continually improve audit quality in Canada. AASOC and the AASB will continue to closely monitor and participate, as appropriate, in initiatives aimed at improving audit quality.

Globally, auditors have only recently started conducting audits under the first set of clarified International Standards on Auditing (ISAs), which the AASB has adopted as Canadian Auditing Standards. Auditors in Canada and around the world are being given time to implement these standards before being burdened with significant further revisions in the short term. As expected, only a limited number of projects to revise auditing standards are currently under way. Over the next few years, the implementation and effectiveness of these standards will undergo ongoing assessment by the International Auditing and Assurance Standards Board, with the co-operation of national standard setters such as the AASB.

Financial statements audits are not the only important type of service offered by public accountants. While standard-setting activity related to such audits has decreased, there has been considerable activity focused on various types of assurance and related services to help enable professional accountants to appropriately respond to the needs in the marketplace. For example, auditors in both private and public sectors provide assurance on a wide range of subject matters. Public accountants also provide a very significant number of review and compilation engagements. As well, auditors of public companies undertake activities directed at helping public companies meet securities regulations. All of these services have a significant public interest component, and AASOC's public oversight responsibilities are just as important for standards relating to these services as they are for financial statement audits.

In addition, recognizing that auditor independence is fundamental to protecting the public interest, AASOC has continued providing oversight of the work of the Independence Task Force

of the CA Profession's Public Trust Committee. The Task Force is developing revised rules of professional conduct on independence for Canada's Chartered Accountants.

The report attached provides an overview of AASOC's key activities over the past year. All of AASOC's voting members who undertake these activities are volunteers and I appreciate their dedication to helping to ensure effective standard setting in Canada.

One of AASOC's important activities is to appoint new members of the AASB to replace retiring members. With the assistance of the Nominating Committee, most ably chaired by Andrew Kriegler, AASOC appointed the following new members effective April 1, 2011 for three-year terms:

- Ms. Marian McMahon (Assistant Auditor General, Office of the Auditor General of Canada); and
- Mr. David Rasmussen (partner, BDO Canada LLP).

Again with valuable assistance of the Nominating Committee, AASOC continued its efforts to diversify its own membership. The following individuals were appointed as AASOC members for three-year terms ending March 31, 2014:

- Mr. Michael Hafeman, an independent international consultant on financial sector regulation and supervision, focusing on insurance and pensions, and a member of the international Public Interest Oversight Board;
- Mr. Stanley Pasternak, Consultant (former Senior Vice President and Treasurer at Canadian Tire Corporation, Limited); and
- Mr. Michael Volker, a high-technology entrepreneur and investor involved in the development of technology-based businesses.

During the year, there was also a very notable departure from AASOC. On June 30, 2011, Mr. David Brown retired as Chair. His contributions to AASOC over seven years as a founding member, including over two years as its Chair, cannot be over-estimated. Under his leadership, AASOC was revitalized, designing and implementing a more systematic and rigorous oversight process that includes having an AASOC observer, with speaking rights, at each AASB and Independence Task Force meeting. David was also a member of the international Public Interest Oversight Board, enabling him to provide AASOC with insights on global concerns and developments. On behalf of the entire Canadian auditing and assurance standards community, I extend our sincerest gratitude for his invaluable contributions. David played a key role in establishing a solid foundation for AASOC. In undertaking my duties as Chair, I hope to continue to build on this foundation.



William J. McFetridge

Overview of AASOC's Activities

During the year ended August 31, 2011, the main activities of AASOC included:

- A. obtaining an up-to-date understanding of key current developments affecting auditing, assurance and related services;
- B. evaluating the credibility of the AASB's due process for developing and issuing standards;
- C. overseeing the development and approval of the AASB's 2010-2013 Strategic Plan and detailed annual work plan;
- D. appointing members to AASOC and the AASB; and
- E. overseeing the activities of the Independence Task Force.

AASOC's objective in undertaking these activities is to help generate confidence in the standards for auditing, and other forms of assurance services and related services, as well as the independence rules for Canada's Chartered Accountants. For the desired level of confidence to be established, it must be clear that the standards and rules have been developed with the primary consideration being the public interest.

This report provides an overview of the above noted activities.

A. Obtaining an up-to-date understanding of key current developments affecting auditing, assurance and related services

At its meetings, AASOC obtained updates from its regulatory members (i.e., the members representing each of the Canadian Public Accountability Board, the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions Canada) on current developments in their respective areas relevant to auditing.

AASOC also received updates from other sources on key current developments. For example, Bob Muter, a senior partner of PwC, provided AASOC with an overview of significant global events affecting financial statement audits that almost certainly will be the subject of further research and consultation. Matters addressed included initiatives that propose:

- possibly changing the form and content of the auditor's report, with an objective to meet investors' information needs and improve audit quality;
- increasing the transparency of auditor communications with the audit committee;
- exploring better methods of evidencing professional skepticism;
- enhancing audit quality, including defining what is meant by audit quality;
- reviewing the corporate reporting model, including consideration of how the audit may be enhanced to provide assurance on disclosures of a company's business model, associated risks and management controls to mitigate those risks;
- establishing protocols for auditor dialogue with regulators;
- addressing concerns about concentration of audits of public companies among the four large firms; and

- further considering whether conflicts of interest exist if the external auditor provides non-audit services.

B. Evaluating the credibility of the AASB's due process for developing and issuing standards

Review and update of due process steps

During the year, AASOC asked staff to update its comparison of how the AASB's due process compares to that of the International Auditing and Assurance Standards Board, and to suggest any changes to due process that might be needed. As a result of that review, a new step was added to explicitly address how to deal with a complaint received about the process followed (although to date, such a complaint has never been received).

Circumstances particular to Canada were also considered as part of this review. For example, in Canada all standards must be issued in both official languages: French and English. The AASOC has satisfied itself that the process followed by the Canadian Institute of Chartered Accountant's Language Services Department is very thorough and rigorous, including use of highly competent translators and a number of quality control reviews before a document is released. However, in consultation with French-speaking AASB members, it was agreed that at least one such member should perform a fatal-flaw review of the final French version of a standard or guidance when the subject matter of the standard or guidance is an audit, review, compilation or other service related to historical financial information. For other types of standards, the AASB will consider, on an individual basis and in consultation with its French-speaking members, whether such a fatal-flaw review is warranted.

Confirmation that due process was followed

Throughout the period, the AASB provided reports to AASOC regarding the AASB's discussions and conclusions on significant or contentious matters. In addition, at least one AASOC member attended most AASB meetings to observe (with speaking rights) how those meetings were conducted. Each AASOC observer focused not only on whether due process was followed but also, for example, on the thoroughness with which issues were debated and the level of participation by AASB members in the discussion. Each AASOC observer provided an oral report to the AASB at the end of each meeting, providing immediate feedback on what he or she observed. The observer also subsequently provided a written report to AASOC regarding the AASB meeting attended.

In addition, for each standard or guideline approved during the period, AASOC reviewed a detailed report setting out when each step required by due process was undertaken, including a written certification by the Director, Auditing and Assurance Standards, that due process had been followed. After appropriate review and discussion, AASOC unanimously confirmed that due process had been followed in developing and approving standards and guidelines that included the following:

- “7000 series” of Handbook Sections (i.e., those Sections in the CICA Handbook – Assurance dealing with securities regulations and other capital markets matters)
 - Limited changes were made to cross-references within these Sections. AASOC considered the AASB’s decision regarding non-exposure of these amendments.

- *AuG-10, Legislative Requirements to Report on the Consistent Application of Generally Accepted Accounting Principles* (re-issued as *AuG-48, Legislative Requirements to Report on the Consistent Application of Accounting Principles in the Applicable Financial Reporting Framework*)
 - Revisions were made to this Assurance and Related Services Guideline to correct outdated references to certain accounting and auditing standards and update the guideline so that it properly reflects the requirements in Canadian Auditing Standard (CAS) 700, *Forming an Opinion and Reporting on Financial Statements*. This includes, for example, the requirement that other reporting responsibilities, such as those referred to in the Guideline, be addressed in a separate section in the auditor’s report subtitled “Report on Other Legal and Regulatory Requirements.”

- *AuG-47, Dating the Review Engagement Report on Financial Statements*
 - This is a new Guideline developed to assist the public accountant in applying the concept of “substantial completion” in dating the review engagement report.

C. Overseeing the development and approval of the AASB’s 2010-2013 Strategic Plan and detailed annual work plan

The majority of the work in developing the AASB’s 2010-2013 Strategic Plan was undertaken in 2009 and early 2010. The plan identifies stakeholder concerns and how the AASB plans to address those concerns over the medium term (i.e., the strategic plan is revisited every three years). AASOC provided the AASB with meaningful input throughout the development of this plan.

The AASB also prepared its detailed annual work plan. AASOC discussed this work plan with the AASB, including how the plan is expected to contribute to achieving the objectives of the strategic plan. The AASB compares its progress and accomplishments against this detailed work plan and summarizes these in its annual report to stakeholders. The annual report was reviewed by AASOC.

D. Appointing members to AASOC and the AASB

As noted in the Message from the Chair, AASOC, with the assistance of its Nominating Committee, appointed three new AASOC members during the period. AASOC also appointed two new members of the AASB.

In making these appointments, AASOC continued to ensure that there is an appropriate mix of members based on competencies, areas of experience and interest, geographic representation and gender.

E. Overseeing the activities of the Independence Task Force

Since September 2009, AASOC has been providing independent oversight of the process used to develop revised rules of professional conduct for Canada's Chartered Accountants regarding independence. These revised independence standards are being developed by the Independence Task Force of the CA Profession's Public Trust Committee. The Task Force's process for developing revised rules involves consultations with key stakeholders, including the Canadian Securities Administrators, the Office of the Superintendent of Financial Institutions and the Canadian Public Accountability Board.

Revisions to independence standards dealing with partner rotation proposed by the Task Force were approved at the annual general meetings of the provincial and territorial institutes/Ordre. The Task Force also continued to work on developing an exposure draft of further changes to the rules of professional conduct relating to independence to achieve more consistency with independence rules included in the International Ethics Standards Board for Accountants' "Code of Ethics for Professional Accountants." Differences have been identified relating to matters such as the definition of what constitutes a network firm, "bright line" limits regarding financial interests in audited entities, and in how rules are applied in the context of audits of public entities versus private entities. The Task Force expects to issue an exposure draft of further proposed changes in early 2012.

During the year, most Task Force meetings were attended by an AASOC observer with speaking rights. AASOC also received regular reports from Gary Hannaford, Chair of the Task Force and provided him with input on key issues.

Operating Costs

Members of AASOC contribute their time voluntarily. Operating costs, relating primarily to meetings, travel and translation, are funded by the Canadian Institute of Chartered Accountants (CICA). In addition, the CICA provides staff support.

AASOC's fiscal year runs from April 1 to March 31. Operating costs for the year ended March 31, 2011 were approximately \$54,000. This includes \$19,000 for meetings and travel, \$14,000 for translation and salaries and benefits of staff amounting to approximately \$19,000.

Looking Forward

In the coming year, AASOC will keep up to date with various initiatives being undertaken regarding improving audit quality and, in particular, improving the clarity and usefulness of auditor's reports. Standard setters, including the International Auditing and Assurance Standards Board (IAASB) and the PCAOB, are leading important initiatives in that regard to which the AASB will provide input.

In terms of operations, the AASB has drafted a medium-term plan for restructuring and clarifying the CICA Handbook – Assurance so that it will better meet the needs of practitioners. This will include revising standards for various types of assurance and related services engagements, which will be drafted in the clarity format. The AASB will also ensure that fundamental concepts that apply to all engagements are consistently addressed throughout the Handbook.

Also, the plan for the medium term is to allow auditors time to implement the clarified standards for financial statement audits. This means the AASB (mirroring the IAASB) will be spending less time than in previous years in developing Canadian Auditing Standards. However, projects are being undertaken to revise standards for assurance engagements, financial statement reviews, compilations of financial statements and standards dealing with specific types of assurance engagement such as those relating to greenhouse gas statements.

In addition, AASOC will continue its efforts to define its role, improve due process and ensure that the public interest is maintained in the development of all new standards.

Auditing and Assurance Standards Oversight Council Members as at August 31, 2011

Chair

William J. McFetridge, CA, LLB
Bull, Housser & Tupper
Vancouver, British Columbia

Members

Jean Bédard, Ph.D, FCA
Université Laval
Québec, QC

Calvin H. Buss, FCA
Deloitte & Touche LLP
Toronto, Ontario

Michael Hafeman, FSA, FCIA, MAAA
Consultant
Toronto, Ontario

Brian A. Hunt, FCA
Canadian Public
Accountability Board
Toronto, Ontario

Andrew Kriegler
CIBC
Toronto, Ontario

Cameron McInnis, CA, CPA
Ontario Securities Commission
Toronto, Ontario

Susan J. McIsaac, FCA
McIsaac & Darragh
Amherst, Nova Scotia

Stan Pasternak, MBA
Consultant
Toronto, Ontario

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

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

Michael Volker, P.Eng
Consultant
Vancouver, British Columbia

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
Ottawa, Ontario

CICA

A. Ron Salole
Vice-President, Standards

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

Jacqui Kuypers, CA, MBA
AASOC Secretary

Nominating Committee

Chair

Andrew Kriegler

Members

William J. McFetridge

Non-voting Members

Bruce Winter
A. Ron Salole

Retired member as of June 30, 2011

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