



Committee/Comité:	Auditing and Assurance Standards Oversight Council	
Meeting Date: Date de la Réunion:	February 12, 2010	
Location/Lieu:	CIBC offices, Toronto	
Chairman: Président de séance:	David Brown	
Attendees: Membres présents:	Cal Buss Phil Cowperthwaite (non-voting) Brian Hunt Ken Krauss (non-voting) Andrew Kriegler Marion MacDonald Bill McFetridge (in part) Erik Peters Greg Shields (non-voting) Ron Salole (non-voting) Jim Sylph David Wilson	
Regrets/Excusés:	Mark White (non-voting)	
Guests/Invité(e)s:	Bruce Winter Cameron McInnis Gary Hannaford Eric Turner Laural Ross	AASB Vice Chair Ontario Securities Commission CEO Manitoba Institute of Chartered Accountants CICA Office of the Superintendent of Financial Institutions
Secretary/Secrétaire:	Jan Burns	

## 1. Chair's opening comments

The Chair welcomed everyone to the meeting. Mr. Brown introduced Laural Ross who attended to represent the Office of the Superintendent of Financial Institutions (OSFI) in place of Mark White who was unable to attend.

This was the last meeting Marion MacDonald and Erik Peters who will be retiring as members of the AASOC effective March 31, 2010. The Chair thanked them for their long service, noting that they were founding members having joined the AASOC in 2003.

The Chair also noted that this was to be the last meeting for Ken Krauss, the AASB Chair. Mr. Brown thanked Mr. Krauss for his support, noting his role in helping the AASOC design and implement a new strategic direction.

## 2. Minutes of December 17, 2009

The minutes of the meeting held on December 17, 2009 were approved, as circulated.

## 3. Updates

### A. Auditing and Assurance Standards Board (AASB)

Ken Krauss presented an overview of the activities of the AASB since the last AASOC meeting in December 2009. As the International Auditing and Assurance Standards Board (IAASB) would not be meeting until March 2010, the AASB's January 2010 meeting focused on domestic (Canada-only) projects and initiatives

Mr. Krauss noted the following key domestic project activities:

- **7000 series of the CICA Handbook – Assurance.** The 7000 series of standards are the main focus of the Securities Regulation Advisory Group (SRAG), which is an AASB standing committee with the objective of assisting the AASB in all matters relating to securities regulation. Several of the standards in this series have been of particular interest to the AASOC because they contain “shall not” requirements for public accountants that some stakeholders feel may inhibit the free flow of information between auditors and other parties. At its January meeting, the AASB considered whether to start a project now to revise the 7000 series. Mr. Krauss reviewed a number of the key arguments for and against starting the project at this time that were carefully considered by the AASB. The AASB has concluded that it will not begin the project this year because it needs to wait for certain key developments related to the changes in auditing standards (notably ISA/CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, standards for review engagements, and international standards dealing with pro forma information). Also, the AASB noted that there are so many significant changes being made to standards with respect to the adoption of the International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs) and the adoption of IFRSs in Canada, that adding changes to the 7000 series now could be overwhelming for auditors and public companies.

Mr. Krauss also noted, however, that the project to revise the 7000 series cannot be postponed indefinitely. Therefore, the AASB requested that the SRAG discuss separating the Sections within the 7000 series into groups and identifying the event(s) or circumstance(s) that indicate when the revisions to the Sections within the group should start. He also indicated it was possible that future

decisions by securities regulators on a number of matters could impact the revision of the 7000 series. The AASB Chair will continue to keep the AASOC up-to-date on this matter.

Cameron McInnis noted that the 7000 series currently contains some inconsistencies with securities regulations that the SRAG and the AASB may wish to consider correcting in the short term

- **Joint Policy Statement (JPS) with Canadian Bar Association (CBA).** Bruce Winter noted that in early January 2010, the International Accounting Standards Board (IASB) issued an Exposure Draft of certain changes it plans to make to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – the accounting standard under IFRSs that applies to the recognition and measurement of legal claims. The proposed changes are significantly different from what was expected when the joint AASB/CBA project to revise the JPS began. As a result, the task force recommended, and AASB agreed, that a different approach to this project is warranted. Since financial statement preparers, auditors and lawyers need guidance on reporting under existing IFRS as soon as possible, part of the revised approach will include the task force developing an Assurance and Related Services Guideline (AuG) to provide interim guidance based on the existing JPS for audits of financial statements prepared in accordance with IFRS using the existing IAS 37. Also, work will continue with the CBA to develop a revised JPS that will deal with financial statements prepared using the revised IAS 37. This will give the CBA time to understand the new accounting requirements and consider the role lawyers can play in assisting auditors obtain the evidence they need concerning the accounting for legal claims in IFRS financial statements. As a result, the revised JPS may not be available until a year later than originally planned – August 2011 rather than 2010. The task force has discussed this with the CBA. The CBA is considering the implications of a guideline in terms of its own due process. The AASB asked the task force to present a draft AuG at the March AASB meeting, at which time the AASB will decide whether or not the draft AuG needs exposure for public comment.
- **Opening January 1, 2010 Balance Sheets.** The technical issues arising out of the transition to the new accounting and auditing standards were reviewed, particularly as they apply to 2011 financial statements prepared under IFRS and also under new Accounting Standards for Private Enterprises..
- **Reporting on Controls at a Service Organization.** This proposed Canadian Standard on Assurance Engagements (CSAE) would replace Section 5970, *Auditor's Report on Controls at a Service Organization*, and AuG-42, *Service Organizations That Use Other Service Organizations*. This CSAE is based on a recently developed AICPA Statement on Standards for Assurance Engagements (SSAE) which in turn is based on new ISA 3402. If approved, the effective date of the proposed CSAE will be for service auditors' reports for periods ending on or after December 15, 2011.

## **B. Office of the Superintendent of Financial Institutions (OSFI)**

Laural Ross updated the AASOC on key audit areas of interest to the OSFI.

- As a member of the Basel Committee's audit subgroup (ASG), OSFI has received four research papers for review concerning user perceptions about the standard audit report. The ASG has been asked to discuss and communicate points to the IAASB Consultative Advisory Group (CAG) in advance of their March meeting, when they will discuss whether work should be undertaken to address the key observations of the research.
- A meeting of the AASB task force (on which the OSFI is an Observer) was held in January to discuss guidance on the audit of employee future benefits (AuG-29) and the audit of policy liabilities of insurance enterprises (AuG-43). It is planned to combine the guidance and to issue in September 2010. If the September target is not met, OSFI may consider issuing guidance requiring auditors to use the current guidance.
- OSFI issued a draft advisory on the conversion to IFRSs by federally regulated entities (FREs) in October 2009 with the comment period ending December 31, 2009. There were no surprises received in the comments – FREs seeking additional capital transitional relief and also seeking to early adopt some key IFRSs. OSFI will issue a final advisory guideline at the end of March 2010 and will likely signal that, rather than categorical prohibition on early adoption, OSFI will look at each IFRS individually, when finalized, to consider whether early adoption will be permitted.

## **C. International Auditing and Assurance Standards Board (IAASB)**

Phil Cowperthwaite reported that the IAASB has not met since the last AASOC meeting. However, the IAASB strategic planning for the 2012–2014 period has begun and he briefly reviewed the themes that would be included in the plan. A stakeholder on-line survey with respect to the plan is due to be released by the end of March 2010 with results expected to be discussed at the September 2010 IAASB meeting. Mr. Cowperthwaite also stated that there are a number of concerns with respect to the auditability of aspects of proposed changes to IFRSs and the IAASB is endeavouring to work with the IASB to resolve those matters.

## **D. Canadian Public Accountability Board (CPAB)**

Brian Hunt reported that the next CPAB Public Report will be issued in mid-March 2010. He said that the focus of this report would be on audit quality, especially what public accounting firms and audit committees can do to improve the quality of audits. Mr. Hunt noted that CPAB is concerned as audit fees are down 4% to 5% and this will be commented on in the Public Report.

Mr. Hunt also reported that CPAB is taking a leadership role in the International Forum for Independent Audit Regulators (IFIAR) and is attempting to have dialogue with firms that are not strictly Canadian (i.e., global firms) on what can be done to improve audit quality as these firms are facing similar challenges to Canadian firms.

#### **E. Public Interest Oversight Board (PIOB)**

David Brown reported that the PIOB has not met since the last AASOC meeting in December; however, they have been working through their self-assessment review process. The monitoring group overseeing this process has the task of performing an assessment of how the International Federation of Accountants (IFAC) reform is working and whether it is appropriate going forward. A report will be issued for public consultation by the end of 2010. The next meeting of the PIOB is the end of March 2010.

#### **F. Canadian Securities Administrators (CSA) and Ontario Securities Commission (OSC)**

Cameron McInnis reported that the International Organizations of Securities Commissions (IOSCO) Standing Committee on Accounting, Auditing and Disclosure has not met since the last AASOC meeting. He noted that IOSCO is working on a response to the IAASB Consultation Paper on draft guidance on the audit of the complex financial instruments.

He also noted that staff of the OSC conducted a review to assess the extent and quality of IFRS transition disclosures made by issuers in light of the disclosure guidance provided in CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards* (SN 52-320). Of the 106 reporting issuers reviewed, 60% discussed an IFRS changeover plan (sometimes using generic boilerplate language), while the remaining 40% did not provide any IFRS transition disclosures. Overall, the findings suggest that, in the MD&A, reporting issuers are not adequately discussing the key elements of their IFRS changeover plan or their progress towards achieving this plan. He also noted that the OSC is permitting early adoption of IFRSs but so far this year, not many companies have decided to early adopt.

#### **4. AASOC Nominating Committee Report**

Andrew Kriegler, the Nominating Committee Chair, presented the Report and recommendations on behalf of the Committee.

##### **A. AASB**

The AASOC unanimously approved the appointment of Mark Davies (partner, KPMG) as the new AASB Vice Chair for a two-year period from April 1, 2010 to March 31, 2012.

The AASOC unanimously approved the re-appointment of Judy Ferguson (Deputy Provincial Auditor, Saskatchewan) for a three-year term from April 1, 2010 to March 31, 2013.

The AASOC unanimously approved the appointment of the following persons as members of the AASB, each for a three-year term from April 1, 2010 to March 31, 2013:

- Carol Bellringer (Auditor General, Manitoba);
- Andrew Macartney (partner, Deloitte);

- Alan Reynolds (Vice-President, National Office, Internal Audit, CIBC) (Andrew Kriegler abstained from voting); and
- Darrell Jensen (partner, E&Y) (Jim Sylph abstained from voting).

The AASOC reviewed the AASB membership composition analysis distributed and concluded that the distribution as outlined was correct and no modifications or adjustments were required.

#### AASB Self-Assessment

The AASOC received a report on, and discussed, the overall results of the 2009 AASB self-assessment.

#### **B. AASOC**

Mr. Kriegler distributed a biography of Mr. David Rattray, FCGA, Associate Partner, Centre for Public Management, and presented the Nominating Committee's views on Mr. Rattray as a potential candidate to replace one of the two AASOC members who are retiring as members effective March 31, 2010. The AASOC unanimously approved the appointment of David Rattray as a new member on the AASOC for a three-year term from April 1, 2010 to March 31, 2013.

The AASOC also discussed the changes proposed by the Nominating Committee that would increase the size of the membership and composition of the AASOC. The AASOC unanimously agreed to increase the membership on the AASOC and approved amendments to the section on 19, 24 and 25, Members and Voting Rights of its Terms of Reference so that this section will now read:

#### **"Members and Voting Rights**

19. The AASOC shall, except for temporary vacancies, comprise not fewer than thirteen and not more than seventeen volunteer voting members, as follows:
  - a. A Chair with a three-year term of office, which is renewable for one term;
  - b. Four members as referred to in clause 24;
  - c. Eight to twelve other members each with a normal term of three years (subject to clause 22 below), which term is renewable for one additional term with the recommendation of the nominating committee;

At the discretion of the Chair, a Vice-Chair with a three-year term of office, which is renewable for one term, may be appointed from the foregoing members.

24. Each of the following organizations shall be specifically invited to appoint a voting member to the AASOC so that each organization will normally have one representative on the AASOC:
  - a. The Canadian Securities Administrators;
  - b. The Office of the Superintendent of Financial Institutions;
  - c. The Canadian Public Accountability Board; and
  - d. The Public Interest Oversight Board, if resident in Canada

Each member shall remain a member of the AASOC until such time as his or her respective organization appoints a different member to the AASOC.

25. With respect to clause 24d if there is more than one member of PIOB who is resident in Canada, the Nominating Committee shall recommend one of those persons to represent PIOB on the AASOC.”

In addition, the Nominating Committee was directed to discuss the matter of the appointment of a Vice Chair for the AASOC.

#### AASOC self-assessment

The AASOC directed that work on a self-assessment survey be commenced using a web-based application to be completed by all AASOC members in the Spring of 2010.

### **5. AASB Strategic Plan**

Bruce Winter provided an update on the status of the AASB Strategic Plan for 2010-2013. The draft Invitation to Comment (ITC) distributed for this meeting had not yet been reviewed by the AASB. This will take place at the AASB March 2010 meeting. Once the AASB has discussed and amended the document, it will be circulated to members of the AASOC for review with changes tracked. Mr. Winter reported that the AASB discussed deferring the development of its new strategic plan so that the plan would be developed at the same time, and cover the same period, as that of the IAASB. However, the AASB concluded that the best approach would be to develop the Canadian plan and make appropriate adjustments, if any, when the IAASB strategic plan becomes available.

Members of the AASOC provided feedback on the draft ITC. They agreed that the AASB had to maintain its capacity with respect to size and resources in order to maintain a strong national voice which, in turn, contributes to having a strong voice globally.

It is anticipated that the ITC will be exposed for comment to stakeholders in April 2010, with the final document presented to the AASB for approval in the Fall of 2010.

### **6. Independence**

The reports of the AASOC Observers at the last two meetings of the Task Force on Independence were discussed.

*[Gary Hannaford and Bill McFetridge joined the meeting via conference call]*

Gary Hannaford, Chair of the Council of Senior Executives Public Trust Committee and Chair of its Independence Task Force (ITF) attended the meeting via conference call to update the AASOC on ITF activity since the last AASOC meeting. He advised that two meetings had been held during this period – one by conference call and one in person. These meetings had been held to focus on the issues that

need to be resolved with respect to a proposed consultation paper that will be distributed to stakeholders for feedback prior to the preparation of an exposure draft (ED), which will be released in late 2010 or early 2011. He also stated that a conference-call meeting had been held between representatives of the ITF and the CSA Chief Accountants Committee where various alternatives were discussed pertaining to the threshold exemption issue. He noted that the Chief Accountants did not reach a consensus on this matter. Subsequent to the meeting, the CSA Chief Accountants Committee provided some market capitalization statistics to assist the ITF in addressing the threshold exemption issue. The ITF will endeavour to distribute the consultation paper around the end of March 2010.

The AASOC discussed the issues concerning the partner rotation and the possibility of an accelerated process for this (i.e., breaking out the issue of partner rotation from the wider consultation on all of the issues and seeking feedback on the partner rotation separately). The AASOC suggested that in consideration of the small to mid-size practitioners, the ITF should have two separate consultations – an ED on the partner rotation issue and a consultation paper on the remaining issues. While the ED and the consultation paper could be issued concurrently, it was important that specific attention be given to the partner rotation issue since it was likely the only opportunity for consultation on this issue. The AASOC also recommended that if the ITF decided to go this route, they should ensure that they receive formal input from the regulators.

Mr. Hannaford reported that he had invited both the Certified General Accountants Association (CGAs) as well as the Certified Management Accountants (CMAs) to appoint someone to attend ITF meetings and serve as an observer. He noted that these invitations had been accepted.

*[Messrs. Hannaford and McFetridge left the meeting]*

#### **7. In-camera session and termination**

The AASOC members held an in-camera session after which the meeting terminated.

#### **8. Date of next meeting**

The next meeting of the AASOC will be May 18, 2010 and will be held at the offices of the Office of the Superintendent of Financial Affairs in Toronto.

