



Minutes Procès-verbal

Committee/Comité: Auditing and Assurance Standards Oversight Council

Meeting Date: February 4, 2011
Date de la Réunion:

Location/Lieu: Deloitte offices, Toronto

Chairman: Bill McFetridge (Acting Chair)
Président de séance:

Attendees: Jean Bédard
Membres présents: Cal Buss
Phil Cowperthwaite (non-voting)
Andrew Kriegler (in part)
Cameron McInnis
Susan McIsaac
Stan Pasternak
David Rattray
Greg Shields (non-voting)
Ron Salole (non-voting)
Karen Stothers (non-voting)
Jim Sylph
Mike Volker
Bruce Winter (non-voting)

Regrets: David Brown, Chair
Brian Hunt

Guests/Invité(e)s: Mark Davies, AASB Member
Gary Hannaford, Chair, Independence Task Force (in part)
Andrew Macartney, AASB Member, Securities Regulation Advisory Group (in part)
Jim Saloman, Chair, Securities Regulation Advisory Group (in part)
Eric Turner, Principal, CICA

Secretary/Secrétaire: Jan Burns/Jacqui Kuypers

1. Chair's opening comments

The Chair welcomed everyone to the meeting and asked Cal Buss to convey our gratitude to his firm for providing the meeting space.

2. Minutes

The minutes of the meeting held on December 16, 2010 were approved with corrections.

3. Updates

A. Auditing and Assurance Standards Board (AASB)

Bruce Winter presented an overview of the activities of the AASB since the last AASOC meeting, noting matters that included the following:

- (a) audit reporting on first financial statements under a new financial reporting framework;
- (b) an approach to practice statements and guidelines; and
- (c) the 7000 series of Sections in the CICA Handbook – Assurance (covered under a separate agenda item below).

Regarding item (a), it was noted that when an entity adopts a new financial reporting framework (for example, International Financial Reporting Standards or accounting standards for private enterprises), the comparative figures in its financial statements would be considered “unaudited” unless the auditor has performed procedures to obtain sufficient appropriate evidence that those figures are fairly presented in accordance with the new framework. A guide on auditor’s reports developed by the Audit Reporting Implications of the New CASs Task Force, with input from the AASB, dealt with this matter but was not well received. Practitioners feel that a blunt statement that comparative information is “unaudited” does not tell the whole story. After further consideration, it was decided to add guidance to suggest that auditors should ask the client to engage them to audit and report on both the current year and the comparative figures. Also, in the case where the auditor has not been so engaged, the guide was amended to suggest wording that can be used to explain why the comparative figures are unaudited.

Regarding item (b), it was noted that the AASB is considering issuing an exposure draft proposing to withdraw Canadian Assurance and Related Services Guidelines that correspond to International Auditing Practice Statements (IAPSs) that the International Auditing and Assurance Standards Board (IAASB) is proposing to withdraw. In addition, the exposure draft would propose that the CICA Handbook – Assurance contain two types of authoritative guidance beyond the standards themselves. First, the Handbook would continue to contain Guidelines having their existing status and level of authority. Second, Canadian Auditing Practice Statements (CAPSs) would be added to the Handbook. CAPSs would have the same status and authority as that being proposed by the IAASB for new IAPSs going forward. Both types of guidance would be subject to full due process. These matters will be discussed further at the AASB’s March 2011 meeting. AASOC agreed with the AASB’s approach to

carefully consider these matters further before making firm commitments to a particular course of action.

Mr. Winter reported that the AASB also approved:

- an exposure draft of a proposed Canadian Standard on Assurance Engagements (CSAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*, which is expected to be issued in early March 2011;
- a position paper on non-authoritative material and tentatively agreed on changes required to the Preface to the CICA Handbook – Assurance, including withdrawal of Section 5021, *Authority of Auditing and Assurance Standards and Other Guidance for Engagements Other than Audits of Financial Statements and Other Historical Financial Information*, which is expected to be presented for approval in March 2011;
- a project proposal to redraft and, if appropriate, revise Handbook sections dealing with special reports to conform with concepts and terminology in the CASs;
- an Invitation to Comment (ITC) on the IAASB’s Consultation Paper of a proposed strategy and work program for 2012-2014 with a response deadline of March 18, 2011;
- an ITC on the IAASB’s Discussion Paper, “The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications,” with a response deadline of April 11, 2011; and
- an ITC on the IAASB’s Exposure Draft of ISRE 2400, *Engagements to Review Historical Financial Statements*, which is expected to be issued early February 2011.

[Bruce Winter left the meeting]

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

Karen Stothers updated AASOC on key areas of interest to OSFI:

- New Basel III requirements regarding rules for capitalization, liquidity and leverage were published in December 2010. The expected start date for implementation is 2013, with a completion deadline of 2019. OSFI will consult with industry during 2011 and 2012 to determine rules for Canada.
- In January 2011, Basel III issued a requirement for certain features in capital instruments regarding viability; certain securities would be converted to common shares to absorb some loss if a trigger is set.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended to remove fixed dates for first-time adopters on derecognition. A few institutions had requested earlier adoption. OSFI has provided guidance on the date to be used for derecognition of assets for regulated financial institutions.

C. International Auditing and Assurance Standards Board

Phil Cowperthwaite reported that there had been no meetings of the IAASB since the last AASOC meeting. He noted however that the IAASB issued two Exposure Drafts:

- International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*, with a response deadline of May 20, 2011; and
- International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*, with a response deadline of June 10, 2011.

The IAASB also issued the following:

- a Consultation Paper on the IAASB's Proposed Strategy and Work Program for 2012-14, with a response deadline of April 4, 2011;
- a Discussion Paper, "The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications," with a response deadline of June 1, 2011; and
- a thought piece, "Audit Quality: An IAASB Perspective."

D. Canadian Public Accountability Board (CPAB)

Brian Hunt was unable to attend the meeting; therefore, no report was given.

E. Canadian Securities Administrators (CSA) and Ontario Securities Commission (OSC)

Cameron McInnis noted that there will likely be nine new or significantly revised IFRSs over the next five years. Mr. McInnis reported that the CSA Chief Accountants Committee has issued a comment letter on IFRS implementation effective dates. In its response, the Committee indicated a preference for sequential effective dates rather than a "big bang" approach. The comment letter did not suggest that deferred implementation was necessary in Canada.

[Andrew Kriegler joined the meeting]

4. AASOC Nominating Committee Report

Andrew Kriegler reported that the terms of two AASB members (John Rossetti and Travis Leppky) will expire on March 31, 2011.

AASOC unanimously approved the appointment of Marian McMahon, Office of the Auditor General of Canada, for a three-year term from April 1, 2011 to March 31, 2014.

Ron Salole reported that BDO has not yet put forward a candidate for the AASB. Mr. Salole stated that he expects BDO to identify a candidate whom AASOC will be asked to approve at its April 2011 meeting.

[Andrew Kriegler left the meeting]

5. AASB Matters

A. Due process review

AASOC considered the AASB's decision regarding non-exposure of amendments to cross-references in the 7000 series of Sections. AASOC unanimously agreed with the AASB's decision and confirmed that the AASB had followed due process regarding this matter.

[Jim Saloman and Andrew Macartney joined the meeting]

B. CICA Handbook – Assurance, Section 7050

Jim Saloman, Co-Chair of the Securities Regulation Advisory Group, and Andrew Macartney (member of the AASB and the Advisory Group) provided an overview of Section 7050, *Auditor Review of Interim Financial Statements*.

Mr. Saloman explained the scope of Section 7050 and clarified the difference between interim reviews performed by the auditor under this Section and reviews of annual financial statements performed by a public accountant under Section 8200, *Public Accountant's Review of Financial Statements*. Mr. Saloman further explained that interim reviews are not mandated in Canada for public companies. However, if interim financial statements are not reviewed, the company must disclose this fact. The AASOC members expressed concern that the AASB might spend a considerable amount of time and resources revising Section 7050, when the reports from such engagements would not be made public.

Mr. Macartney discussed public interest considerations in Section 7050 noting that they will be addressed throughout the project.

Mr. Macartney also outlined international developments that may affect the AASB's approach and timetable for revising Section 7050.

[Jim Saloman and Andrew Macartney left the meeting]

C. French Translation

Mark Davies provided an update of the AASB's due process regarding the French translation of the AASB's authoritative guidance.

When reviewing the AASB's revised due process at its October 2010 meeting, the AASOC members noted that there is no mandatory review of translated standards and Assurance and Related Services Guidelines by a French-speaking AASB member. The AASB representatives at that meeting agreed to discuss this matter further with the AASB French-speaking members.

Mr. Davies reported that Greg Shields discussed this matter with the two AASB French-speaking members. As a result of this discussion, the due process checklist provided to AASOC (and other descriptions of the AASB's due process, as appropriate) will be amended as follows (additions indicated by underline and deletions by strikethrough):

- (a) One or more French-speaking AASB members will perform a fatal-flaw review of the final French version of the standard or other guidance. (Note: This applies only when the subject matter of the standard or other guidance is an audit, review, compilation or other service related to historical financial information).

(a) For guidance other than that noted in (a), the AASB considered whether there was any matter that indicated that the French translation of the final English version of the standard or other guidance warranted a fatal-flaw review by a French-speaking AASB member.

AASOC agreed with the changes proposed to the AASB due process.

[Gary Hannaford joined the meeting]

7. Independence

Gary Hannaford, Chair of the Council of Senior Executives Public Trust Committee and Chair of its Independence Task Force attended the meeting via conference call to update AASOC on matters occurring since the last AASOC meeting.

Mr. Hannaford provided the following information:

- The Task Force had two conference calls since the December 2010 AASOC update to discuss specific areas where changes may need to be made to existing rules.
- Meetings have recently been held with some stakeholders (for example, CPAB, the CSA and OSFI). Meetings are scheduled during February 2011 with the Council of Senior Executives and a leadership group including the chairs, vice chairs and CEOs of the provincial institutes of chartered accountants/Ordre and the CICA Board of Directors.
- CGA Canada participated in one conference call. A representative from CMA Canada was unable to participate as she was out of the country. CMA Canada has indicated that they are tracking the progress of the Task Force. They will not guarantee whether they will adopt all of the changes that the Task Force proposes, but will try to ensure that their rules will be as close as possible to those proposed.
- The Task Force is still hopeful it can release an exposure draft in early May 2011 with a response deadline of mid-August 2011.

[Gary Hannaford left the meeting]

6. Integrated Reporting

Jim Sylph presented an overview of the International Integrated Reporting Committee.

Mr. Sylph reported that the Committee has been created to respond to the need for a concise, clear, comprehensive and comparable integrated reporting framework structured around the organization's strategic objectives, its governance and business model and integrating both material financial and non-financial information.

The objectives for an integrated reporting framework are to:

- support the information needs of long-term investors, by showing the broader and longer-term consequences of decision-making;

- reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, making clear the link between sustainability and economic value;
- provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision-making;
- rebalance performance metrics away from an undue emphasis on short-term financial performance; and
- bring reporting closer to the information used by management to run the business on a day-to-day basis.

Mr. Sylph reported that recent activities of the Committee included a session at the World Economic Forum Annual Meeting 2011 in Davos, Switzerland on aspects of integrated reporting entitled, "Accounting for New Realities: Redesigning Corporate Reporting." The panel included three global leaders of Big Four Firms and the CEO of the Global Reporting Initiative.

The Committee is looking to present to the G20 meeting later this year.

9. In-camera session and termination

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

10. Date of next meeting

The next meeting of AASOC will be April 8, 2011 and it will be held at the offices of PwC, Toronto