



# Minutes Procès-verbal

Committee/Comité: Auditing and Assurance Standards Oversight Council

Meeting Date: April 8, 2011  
Date de la Réunion:

Location/Lieu: PwC offices, Toronto

Chairman: David Brown  
Président de séance:

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

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

Secretary/Secrétaire: Jacqui Kuypers

## 1. Chair's opening comments

David Brown welcomed everyone to the meeting and introduced the newest AASOC member, Michael Hafeman, a member of the Public Interest Oversight Board. Mr. Brown extended thanks to Bruce Winter and PwC for hosting this meeting and to AASOC for its recognition and generous gifts at the previous night's dinner.

## 2. Minutes

The minutes of the meeting held on February 4, 2011 were approved as circulated.

## 3. Nominating Committee

AASOC unanimously approved the appointment of David Rasmussen, a partner of BDO, as a member of the AASB for a three-year term from April 1, 2011 to March 31, 2014.

Mr. Kriegler also reported that David Brown's term on AASOC will expire on June 30, 2011.

*[Bill McFetridge left the meeting]*

AASOC unanimously approved the appointment of Bill McFetridge as Chair of AASOC for a three-year term ending March 31, 2014.

*[Bill McFetridge rejoined the meeting]*

*[Gary Hannaford joined the meeting]*

## 4. 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 regarding the development of revised rules of professional conduct for Chartered Accountants on independence.

Mr. Hannaford provided the following information:

- The Task Force made a presentation to a leadership group of the CA Profession, which included Chairs, Vice Chairs and CEOs of the provincial institutes of chartered accountants/Ordre and members of the CICA Board of Directors on differences between the rules of professional conduct in Canada and the International Ethics Standards Board for Accountants' "Code of Ethics for Professional Accountants".
- The Task Force has provided the Councils of the provincial institutes of chartered accountants/Ordre with a summary analysis of the proposed changes to the rules of professional conduct and Council interpretations that it is contemplating. It has asked the

Councils to provide their input on the proposed changes and, in particular, identify any fatal flaws. Meanwhile, the Task Force continued to meet to discuss the specific wording changes that would be needed to the rules of professional conduct and the Council interpretations should the positions currently contemplated be adopted. This included an in-person meeting on March 15, 2011 along with a series of five conference calls of two to three hours in length. Based on the discussions at these meetings, revisions are now being drafted for further review by the Task Force at its next meeting.

- The Task Force is hoping to meet with the AASB to obtain input on whether independence rules should apply to specified auditing procedures engagements. In these types of engagements (sometimes called agreed-upon procedures engagements) the practitioner performs only those procedures requested by the client. Therefore, these engagements are not assurance engagements (i.e., they do not result in an audit opinion or a review engagement conclusion). Canada appears to be the only country that applies independence rules to specified procedures engagements. In other countries, practitioners need to be objective in performing these services but not necessarily independent of the client for whom the procedures are being performed.
- Once the redrafting the rules of professional conduct and Council interpretations on independence is complete, the draft will be circulated to various individuals with the large and mid-size firms and the Rules Harmonization Committee to make sure proposed changes do not have any unintended consequences.
- The Task Force expects to issue an exposure draft in September 2011 with a response deadline of mid-to-late November 2011.

David Brown commented that it has been some time since the substance of the changes has been discussed in detail with AASOC. Mr. Brown asked that Mr. Hannaford attend the next AASOC meeting in person to provide a more detailed presentation.

*[Gary Hannaford left the meeting]*

## 5. 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 those set out below.

#### *Auditor's responsibilities relating to other information in documents containing audited financial statements*

It was noted that the International Auditing and Assurance Standards Board (IAASB) is revising International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. ISA 720 requires the auditor to read documents containing audited financial statements and respond appropriately if other information could undermine the credibility of the financial statements. Mr. Winter noted that when ISA 720 was redrafted in the clarity format, it was not revised. ISA 720 has been adopted as CAS 720 in Canada. In Canada, two standards touch on the same topics

covered in CAS 720: Section 7500, *Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents*, and Section 5020, *Association*. The AASB feels that the IAASB should take a broader approach in revising ISA 720 and consider developing an association standard.

#### *Compilation engagements*

Mr. Winter provided background information on compilation engagements noting the following:

- In a compilation engagement, the practitioner is engaged to compile financial statements from information provided by the client. The practitioner performs no audit or review procedures with respect to the information and provides no assurance on the compiled information.
- Canada is one of the few jurisdictions that, for many years, has had a standard on compilation engagements (Section 9200, *Compilation Engagements*), and where compilation engagements are performed extensively.
- The IAASB has undertaken a project to revise International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, and issued an Exposure Draft in October 2010. Phil Cowperthwaite is the Chair of the IAASB Task Force developing the revised standard.
- The AASB is monitoring the IAASB's project but has not made any decision on whether to eventually adopt revised ISRS 4410 or undertake a Canadian project to revise Section 9200.
- The AASB issued an Invitation to Comment on the IAASB Exposure Draft in November 2010. Forty-seven comment letters were received in response. In addition, the AASB staff conducted consultation sessions across Canada during January and February 2011.

AASOC discussed the issues surrounding compilation engagements and suggested that further consultations be undertaken. Mr. Winter reported that the AASB asked staff to present options for next steps at its June 2011 meeting.

#### *7000 Series of Sections in the CICA Handbook – Assurance*

Changes in securities legislation have resulted in certain parts of the following standards and guidance becoming outdated. As a result, Mr. Winter reported that the AASB unanimously approved exposure drafts of changes to the following:

- Section 7110, *Auditor Involvement with Offering Documents of Public and Private Entities*;
- Section 7115, *Auditor Involvement with Offering Documents of Public and Private Entities – Current Legislative and Regulatory Requirements*; and
- Assurance and Related Services Guideline AuG-30, *The Auditor's Consent and Comfort in Connection with Securities Offering Documents*.

Mr. Winter also reported that the AASB unanimously approved an exposure draft of proposed changes to Section 7200, *Assistance to Underwriters and Others*. With changes to Canadian securities regulations, compilation reports on pro forma financial information are no longer required. Consequently, underwriters would no longer have the results of the auditor's procedures communicated to them. Therefore, underwriters may start requesting that the auditor include in a comfort letter comments on pro forma financial information. Accordingly, the AASB is proposing changes to Section 7200 to provide guidance to auditors who are asked by underwriters to comment in a comfort letter on pro forma financial information. These changes are Phase 1 of revisions to Section 7200 as approved in the January 2011 project proposal. The AASB agreed that both sets of changes will be exposed for public comment.

The AASB also approved, without public exposure, a conforming change to an illustrative example in Section 7200 (covered under a separate agenda item below).

#### *Other matters*

Mr. Winter also reported the following matters.

- The AASB postponed its discussion of the Canadian approach to adopting International Auditing Practice Statements and developing Canadian Assurance and Related Services Guidelines in light of the significant diverse views about the IAASB's proposals and a possible significant change in approach to this matter by the IAASB.
- The AASB is updating its Terms of Reference to reflect the changes in its mission, vision and objectives, as set out in its strategic plan, and also the AASB's position regarding its involvement with non-authoritative material. The revised Terms of Reference will be presented to AASOC for approval at an upcoming meeting.
- The AASB communications staff is working with the AASB and its staff to develop improved means of obtaining input on exposure drafts and invitations to comment.

#### **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 is continuing consultations with industry to determine rules for Canada.
- OSFI released an update to its Supervisory Framework. The Supervisory Framework was first released in 1999; this is the result of a 10-year review. Highlights of the changes include:
  - adoption of the Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision" and the International Association of Insurance Supervisors' "Insurance core principles and methodology" as its sources for detailed supervisory standards and criteria;
  - improved determination of institutions' risk appetite and compensations systems review; and
  - increased focus on the work of the actuary. The revised Supervisory Framework includes performing a review of the actuarial process in the insurance companies rather than

relying on the work of the appointed actuary. This will increase number of resources in OSFI with actuarial expertise.

#### **C. International Auditing and Assurance Standards Board**

Phil Cowperthwaite reported that the IAASB had one meeting since the last AASOC meeting. He noted that the IAASB approved an exposure draft of ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Statements*, an International Framework for Assurance Engagements and a Consultation Paper on auditor reporting.

Mr. Cowperthwaite also reported that Professor Stavros Thomadakis (the former PIOB Chair) gave an interesting speech on his views of oversight, with a particular focus on who oversees the overseers and appropriate mechanisms for doing so. It is widely accepted that oversight is fundamental to the legitimacy of standards set by standard-setting bodies. However, there is no way to know if the overseers are doing their job. Mr. Cowperthwaite stated that it would be interesting for AASOC to talk about the presentation at a future meeting. Michael Hafeman stated that he would obtain a copy to forward to the AASOC members.

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

Brian Hunt reported the following:

- the 2010 CPAB Public Report will be issued shortly;
- CPAB has been in talks with the Public Company Accounting Oversight Board regarding coordination of reviews and cooperation between the two organizations; and
- CPAB plans to hold a symposium on audit quality in December 2011.

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

Michael Hafeman reported on the recent changes in composition of the PIOB including the retirements of Stavros Thomadakis, Antoine Bracchi, David Brown and Fayez Choudhury, and the appointments of Eddy Wymeersch (Chair), Chandrashekar Bhawe, Charles McDonough and Robert Ward. The new members and many continuing members (including Michael Hafeman) were appointed for three-year terms. Sir Brian Nicholson was appointed for two more years and Aulana Peters for one more year.

Mr. Hafeman also reported the following matters.

- The PIOB Public Report will be issued in late April or early May 2011. It will set out key points recently agreed by the PIOB on the meaning of the “public interest”, including the following:
  - Accountancy services are in the public interest if they create net benefit for the public.
  - The public refers to the people as a whole; it is not limited to those who have retained an accountant or are making use of a set of accounts. With respect to a particular accountancy service, it is perhaps useful to focus on the segment of the public that is directly or indirectly affected by such a service.
  - The concept of benefit to the public generally involves a measure of public welfare that is multidimensional and includes aspects such as financial, political, social and

- environmental welfare. However, accountancy services have the most direct effect on financial welfare because accounts usually focus on financial information.
- The accountancy profession can best benefit the public by providing account-related information in which the public has confidence. This information will be most helpful if it is relevant to the users and is trusted by them as a faithful representation of the performance of the reported activities.
  - A Monitoring Review Group was assembled to make changes to the PIOB's model for observing the meetings of the boards that it oversees. The group recommended less than 100 percent observation. However the group is still considering the characteristics of meetings that would normally not be observed. The PIOB recognizes that there are advantages to observing all meetings and is trying to preserve these advantages while moving to a new model.

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

Cameron McInnis noted the following matters:

- The CSA appointed William S. Rice, Q.C., Chair and Chief Executive Officer of the Alberta Securities Commission, as the new Chair of the CSA for a two-year term ending March 31, 2013.
- The CSA issued a notice clarifying requirements on disclosure of changes in accounting policy in the company's Management Discussion and Analysis.
- Three discussion papers on audit quality were issued a few years ago. The CSA is still considering the auditor's report and communication, and is trying to do outreach with stakeholders to obtain more information. The CSA has held roundtables with investors and auditors, and is contemplating sessions with other groups, including preparers, audit committee chairs, etc.

*[Jim Saloman and Andrew Macartney joined the meeting]*

## **6. AASB Matters**

### **A. Due process review**

AASOC considered the due process followed by the AASB in making a change to an illustrative example in Section 7200, *Auditor Assistance to Underwriters and Others*, including the AASB's decision to not publicly expose this change. AASOC unanimously agreed with the AASB's decision and confirmed that the AASB had followed due process regarding this matter.

Appendix 1 to the Due Process Checklist contains examples of factors that could lead the AASB to decide not to expose a proposed authoritative pronouncement. It was noted that Appendix 1 does not include a reference to conforming changes. AASOC asked the AASB representatives to change the Appendix to include more examples.

### **B. 7000 Series of Sections in the CICA Handbook – Assurance**

Jim Saloman, Co-Chair of the Securities Regulation Advisory Group, and Andrew Macartney (member of the AASB and its Advisory Group) provided an overview of Section 7110, *Auditor*

*Involvement with Offering Documents of Public and Private Entities, Section 7115, Auditor Involvement with Offering Documents of Public and Private Entities – Current Legislative and Regulatory Requirements, and Assurance and Related Services Guideline AuG-30, The Auditor’s Consent and Comfort in Connection with Securities Offering Documents.*

Mr. Saloman discussed the following public interest considerations noting that they will be addressed throughout the project:

- whether prohibition from providing assurance is appropriate; and
- whether extensive requirements and guidance that go beyond the principles and concepts in Section 5020, *Association*, and the Canadian Auditing Standards are appropriate.

Mr. Macartney outlined the approach that the Advisory Group will take to revise these Sections. He indicated that the project would proceed in two phases. Phase 1 would involve the development of revisions to extant Section 7110 dealing with auditor involvement with offering documents and a preliminary decision on the disposition of material not carried forward in this Section. Phase 2 would involve the finalization of this Section, and the disposition of material not previously carried forward, once necessary securities regulations are in place.

*[Jim Saloman and Andrew Macartney left the meeting]*

*[Bob Muter joined the meeting]*

## **7. Significant global events affecting auditing**

Bob Muter provided an overview of significant global events affecting auditing. He provided background information on the organizations involved, the nature of their consultations and the reasons for their actions. Mr. Muter referred to consultations that included the European Commission Green Paper on Audit Policy, the UK House of Lords Economic Affairs Committee report on auditors and market concentration, PCAOB outreach on potential changes to the auditor’s reporting model, the UK Financial Reporting Council report on effective company stewardship, the IAASB Task Force on Audit Quality and the IAASB’s proposed consultation paper on audit reporting. The focus of his presentation was on the role of the auditor, audit quality and audit reporting. He noted that his comments were primarily directed toward public interest entities. He reported that the objective of the consultations is to enhance the relevance and value of an audit.

Mr. Muter noted the following matters regarding which there will be further discussion and consultation:

- the possible expansion of the audit 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 prudential regulators;
- concerns about concentration of audits in the four large firms; and
- questions about a conflict of interest if the external auditor provides non-audit services.

Mr. Muter stated that one result of further debate about some of the above matters could be fundamental changes to how and on what the auditor reports. He expressed a view that it is important for Canada to engage in the debate.

*[Bob Muter left the meeting]*

## **8. Administrative matters**

The next meeting of AASOC will be held on July 7, 2011 at a location to be determined.

AASOC also agreed that meetings will be held on the following dates:

- Friday, October 28, 2011; and
- Friday, December 16, 2011.

A joint meeting will be held with the Accounting Standards Oversight Council on the afternoon of Thursday, October 27, 2011 followed by a joint dinner.

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

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

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David Brown, Chair

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Jacqui Kuypers, Secretary