



Minutes Procès-verbal

Committee/Comité:	Auditing and Assurance Standards Oversight Council
Meeting Date: Date de la Réunion:	July 7, 2011
Location/Lieu:	CPAB offices, Toronto
Chairman: Président de séance:	Bill McFetridge
Attendees: Membres présents:	Jean Bédard Brian Hunt Cameron McInnis Susan McIsaac Stan Pasternak David Rattray Ron Salole (non-voting) Greg Shields (non-voting) Karen Stothers (non-voting) Mike Volker Bruce Winter (non-voting)
Regrets/Excusés	Cal Buss Phil Cowperthwaite (non-voting) Michael Hafeman Andrew Kriegler Jim Sylph
Guests/Invité(e)s:	Anthony Campione, CICA staff (in part) Gary Hannaford, Chair, Independence Task Force (in part) Jan Munro, Independence Task Force (in part) Jim Saloman, Chair, Securities Regulation Advisory Group (in part) Eric Turner, Principal, CICA (in part)
Secretary/Secrétaire:	Jacqui Kuypers

1. Chair's opening comments

Bill McFetridge welcomed everyone to the meeting, noting that several members were unable to attend due to personal and business obligations. Mr. McFetridge extended thanks to Brian Hunt and the Canadian Public Accountability Board (CPAB) for hosting this meeting. He also expressed appreciation to the AASOC members for the support given him at the previous meeting in his appointment as Chair.

Mr. McFetridge further noted that he has been pleased with what has been achieved at the last few meetings. In moving forward, he noted the importance of identifying and responding effectively to new challenges. Topics that AASOC should cover at future meetings include, for example:

- considering how well AASOC is completing its oversight responsibilities;
- whether oversight should cover more than due process;
- possibly expanding the AASOC's relationship with the Accounting Standards Oversight Council (AcSOC);
- ways to increase the public profile of AASOC;
- recruiting new AASOC members; and
- AASOC's relationships with bodies such as Canadian Securities Administrators (CSA), Office of the Superintendent of Financial Institutions (OSFI) and CPAB.

2. Minutes

The minutes of the meeting held on April 8, 2011 were approved as circulated.

3. Independence

Gary Hannaford, Chair of the Council of Senior Executives Public Trust Committee and Chair of its Independence Task Force, and Jan Munro, staff support to that Task Force, updated AASOC on matters occurring since the last AASOC meeting regarding the development of revised rules of professional conduct on independence for Chartered Accountants.

Mr. Hannaford provided brief background information on the work done to date by the Task Force. He noted that the Task Force distributed a consultation paper in early 2010 indicating its intent to adopt the International Ethics Standards Board for Accountants' "Code of Ethics for Professional Accountants" (the IFAC Code). Responses to that consultation paper, particularly from the regulatory community, did not indicate support for this proposal. The Task Force decided to change its approach. It compared the current rules of professional conduct to the IFAC Code and decided that revisions would be proposed to those rules that the Task Force believes are currently more stringent in the IFAC Code.

Mr. Hannaford reported that the first phase of changes addressing partner rotation has been approved by the membership of all provincial institutes, with the exception of the Quebec Ordre, which does not require approval by its membership.

Mr. Hannaford also reported that the Task Force held one conference call since the last AASOC meeting. A full-day meeting is scheduled for July 12, 2011.

Jan Munro reviewed an analysis of areas within the rules of professional conduct where there are differences from the IFAC Code. Specific topics discussed included those set out below.

Rotation of key partners

The rules of professional conduct include a “bright-line” test based on the number of hours performed on an audit, while the IFAC Code focuses on those who made key decisions or judgments during the audit. The Task Force believes that the IFAC Code takes a more robust approach. The AASOC members provided varying views on this matter.

Definition of network firms

Canadian rules define network firms as entities under common control, ownership or management and any entity a reasonable observer would conclude to be part of the firm. The IFAC Code defines a network firm as belonging to a larger structure that is aimed at co-operation and meets one of five specified criteria. The IFAC Code is more detailed than in the Canadian rules. The Task Force believes that, while it is relatively easy to identify network firms in the case of large firms, it is more difficult for smaller and mid-size firms. The nature and rigour of relationships among firms varies widely. Ms. Munro reported that some provincial institutes prefer retaining the concept of “reasonable observer” from the current rules of professional conduct. Others believe that the criteria in the IFAC Code are sufficient, as they believe that the guidance in the Code is equivalent to what a reasonable observer would conclude to be part of the firm. AASOC suggested that the definition from the IFAC Code be adopted, but that the concept of “reasonable observer” be included in the Council interpretations.

Financial interests

The Canadian rules of professional conduct currently prohibit partners and professional employees from holding 0.1% or more of the securities of any audit client of the firm. It was noted that no other jurisdiction is this restrictive and, therefore, the Task Force is proposing to delete this requirement. Some AASOC members expressed concern that deleting this requirement would not be in the public interest and asked the Task Force to reconsider its decision.

Reporting issuers/public interest entities

The Canadian rules of professional conduct currently include an exemption from certain independence requirements for auditors of reporting issuers with market capitalization or total assets of less than \$10 million. The IFAC Code does not include such an exemption. The Task Force believes that there have not been any changes in Canadian circumstances to indicate a need to change this threshold. It also believes that maintaining the threshold exemption is in the public interest. Some AASOC members feel that the exemption should never have been put in place.

These members believe that it would be in the public interest to have no exemption. Ms. Munro stated that the threshold was originally included because although there are a large number of reporting issuers who meet the exemption criteria, their total market capitalization is very low. Small entities need assistance from their auditors in preparing their financial statements. AASOC concluded that since the exemption applies to the application of only certain limited independence rules, independence overall would be maintained.

Use of the IFAC Code in a group audit situation

Ms. Munro noted that the Canadian rules of professional conduct are silent on the independence requirements that apply to foreign auditors of foreign subsidiaries of Canadian reporting issuers. The Task Force does not want to require foreign auditors to comply with the Canadian rules of professional conduct. It believes that these foreign auditors can comply with local rules, as long as they are at least as rigorous as the IFAC Code. AASOC expressed concern that foreign auditors would be held to a higher standard (for example, with regard to the threshold exemption) than Canadian auditors. Some AASOC members expressed the view that there is an inconsistency in that the Task Force has stated that it believes the Canadian rules of professional conduct are the best rules, but will not require foreign auditors to follow these rules.

Specified auditing procedures engagements

Mr. Hannaford reported that he attended a recent Auditing and Assurance Standards Board (AASB) meeting to discuss the issue of independence as it relates to specified auditing procedures engagements. He noted that the AASB agreed that independence should not be required of auditors performing these types of engagements, due to the nature of the engagements (i.e., factual reporting of the results of applying agreed-upon procedures). Bruce Winter noted that if the independence rules are changed, minor changes to Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*, would be required. Any such changes would go through the normal due process.

Overall conclusion from this session

Mr. Hannaford agreed that the Task Force would revisit certain decisions based on input received from AASOC and will report back to AASOC at a future meeting.

[Gary Hannaford and Jan Munro left the meeting]

4. 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.

Other reporting where no assurance is provided

In August 2010, the AASB approved a project proposal to develop a new Related Services Standard on communicating information to a third party regarding matters of interest identified during a financial statement audit. Mr. Winter reported that a task force has been recruited,

with Travis Leppky, a partner of BDO and a former AASB member, as Chair. At the recent AASB meeting, the task force recommended to the AASB that the scope of the project be expanded to include reporting to external parties of relevant matters of which the public accountant is aware as a result of his or her role as auditor or reviewer of the financial statements (i.e., matters beyond those encountered during the audit or review might be communicated). AASOC asked whether the form of communication resulting from in this standard would be described in the standard. Mr. Winter indicated that the task force and the AASB are considering a number of options. He stated that work has just begun on this project, an exposure draft is not expected until mid-2012 at the earliest, and the target for release of the final standard is mid-2013.

Compilation engagements

Mr. Winter reported that the AASB has continued discussions on the future direction to take in Canada regarding compilation engagements. He reminded AASOC that the AASB has not committed to adopting international standards outside of International Standards on Auditing (ISAs). He also noted that the AASB has asked staff to prepare a project proposal on compilation engagements for review and, if appropriate, AASB approval at its September 2011 meeting. The project proposal will consider, for example:

- what role, if any, financial reporting frameworks should play in a new compilation standard;
- what type of report is appropriate, considering the existing Notice to Reader; and
- whether the proposed International Standard on Related Services (ISRS) 4410, *Compilation Engagements*, is suitable to either adopt or use as a starting point in developing a Canadian standard.

Enhancing the value of auditor reporting

Mr. Winter reported that the AASB issued an Invitation to Comment on the IAASB's Consultation Paper, "Enhancing the Value of Auditor Reporting: Exploring Options for Change." The AASB will be preparing a response to the Consultation Paper. AASOC asked whether the AASB has considered issuing invitations to comment on papers issued by other national standard setters, such as Public Company Accounting Oversight Board (PCAOB). It was noted that the AASB monitors the activities and pronouncements of other standard setters, but that invitations to comment would not normally be issued since AASB has committed to adopting the ISAs and that is the focus. Unlike the IAASB, these standard setters have no obligation to consider comments from those outside their national jurisdiction. Some AASOC members expressed the view that AASB might play a role in trying to achieve consistency between international and US standards.

In that regard, Mr. Winter reported that the AASB staff will be undertaking a detailed comparison of Canadian standards on quality control (adopted from international standards) with those of the PCAOB. This analysis will be done in response to a view expressed by CPAB in its 2010 Public Report that a new quality control standard issued by the PCAOB is a higher standard than the existing Canadian standard. Mr. Winter will report the result of the analysis to AASOC at a future meeting, along with the AASB's plans to address any issues arising from the analysis.

Other items of note

Mr. Winter informed AASOC that the CICA has begun merger discussions with Certified Management Accountants (CMAs). He stated that the AASB believes that such a merger would have no significant impact on its standard-setting status, since the standards issued by the AASB are already applied by other accounting bodies, particularly when relevant laws and regulations refer to standards in the CICA Handbook. AASOC discussed whether a merger would have an impact on the AASOC's oversight responsibilities. Ron Salole stated that AASOC's success to date should ensure that the merger would have no negative impact.

Finally, Mr. Winter reported that the September 2011 AASB meeting will be held offsite, in Calgary, Alberta. He stated that he believes it is important for meetings to be held outside of Toronto on a periodic basis. The AASB meeting will include an outreach session with interested stakeholders. AASOC briefly discussed the possibility of also holding a future meeting outside of Toronto.

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

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

- OSFI is expected to issue clarification of recent changes from Basel III.
- OSFI has commenced projects addressing financial statement disclosures and audit quality. In particular, OSFI will be assessing the sufficiency of disclosures in post-implementation of IFRSs.

C. Canadian Public Accountability Board (CPAB)

Brian Hunt reported the following:

- CPAB has been looking at audits of entities that are raising capital in Canada, but have significant operations in emerging economies and management located outside of Canada (sometimes referred to as "complex business structures"). CPAB has begun to identify the risks associated with auditing such entities and is working with firms to ensure that the firms have appropriately identified, and designed and performed audit procedures that appropriately respond to, such risks. CPAB is also putting additional resources into reviewing audit work done with regard to these organizations. Obtaining access to these working papers is sometimes difficult, so CPAB is working with the PCAOB and regulators in other countries to overcome this obstacle.
- Mr. Hunt is Chair of the Global Public Policy Committee of the International Forum of Independent Audit Regulators. The Committee has discussed audit risk at a global level, including challenges faced by auditors.
- CPAB has been monitoring the results of the debt crisis in Europe and how well auditors are assessing impairment of assets.
- Plans for the CPAB symposium on audit quality to be held in December 2011 are well underway, with most panelists identified and booked. Attendance will be by invitation only. Invitations will be circulated shortly.

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

Cameron McInnis stated that there was nothing to report on the CSA since the last AASOC meeting. With regard to the OSC, he noted the following matters:

- The OSC is conducting a targeted review of Ontario reporting issuers listed on Canadian exchanges that have significant business operations in emerging markets.
- The OSC hosted an International Organization of Securities Commissions (IOSCO) Standing Committee meeting. This meeting focused on initiatives related to audit quality, including the European Commission Green Paper on Audit Policy, PCAOB papers, etc.
- The OSC hosted two IOSCO roundtables for preparers and audit committee members. These roundtables focused on the audit process, how it is useful and how it could be improved.
- The OSC has issued alerts identifying deficiencies in first quarter reporting of results in accordance with IFRSs. The OSC has also issued a “tip sheet” for smaller entities, advising them on what should be included in second and third quarter filings.

5. Nominating Committee

Stan Pasternak reported on Nominating Committee activities since the last AASOC meeting. He reported that the Nominating Committee discussed composition of the AASB and AASOC, identified members who will be retiring by the end of the year and what types of backgrounds new members should have. He noted that the Nominating Committee will meet again before the next AASOC meeting and will provide an update to AASOC at the next meeting.

6. AASB Matters

A. AASB Terms of Reference

AASOC reviewed the draft revised AASB Terms of Reference. Mr. Winter reported that the changes are not significant. They are being proposed to:

- reflect the revised AASB mission statement and strategic goals to be consistent with the Strategic Plan for 2010-2013,
- reflect the AASB’s recent position paper with regard to non-authoritative material;
- replace the prescriptive “shall” wording with present tense;
- add material addressing the composition of the AASB, performance indicators and performance of due process; and
- make minor editorial changes.

AASOC members felt that they did not have enough time to reflect on the changes and assess whether they reflected a change in substance. Certain members further queried whether the direction taken in the Strategic Plan should be revisited given recent international developments. Mr. McFetridge asked the AASOC Secretary to circulate the draft AASB Terms of Reference to AASOC members off-line to solicit comments. Further revisions to the AASB Terms of Reference will be discussed and approved, if appropriate, at a future AASOC meeting.

B. AASB Annual Report and Operating Results for 2010-2011

Bruce Winter presented the draft AASB Annual Report for 2010-2011 to AASOC. No fatal flaws were identified in the draft annual report.

[Jim Saloman joined the meeting]

C. 7000 Series of Sections in the CICA Handbook – Assurance

Jim Saloman, Chair of the Securities Regulation Advisory Group provided an overview of Section 7200, *Auditor Assistance to Underwriters and Others*. He noted that Section 7200 is the largest, and likely most controversial, of the 7000 series of Sections in the CICA Handbook – Assurance (i.e., those Sections in the Handbook dealing with securities regulations and other capital markets matters). Mr. Saloman reported that an Exposure Draft was issued in early May 2011 dealing with comfort letters on pro forma financial information. The comment deadline was June 30, 2011. Mr. Saloman reported that the Advisory Group will be meeting to discuss responses received to the Exposure Draft, and will also be consulting with the OSC's Securities Advisory Committee on the proposed changes.

Mr. Saloman provided an overview of the following significant issues regarding Section 7200, noting that they will be addressed throughout the project:

- Securities regulations no longer require compilation reports on pro forma financial information. Therefore, underwriters will no longer have the results of the auditor's compilation procedures communicated to them, and may start asking that the auditor include comments on pro forma financial information in a comfort letter.
- Section 7200 contains restrictions on what auditors can provide. The project to revise Section 7200 will consider whether such restrictions are appropriate.
- There will be extensive consultations with key parties, including lawyers specializing in securities matters.

[Jim Saloman left the meeting]

[Eric Turner and Anthony Campione joined the meeting]

7. Enhancing the Value of Auditor Reporting

Eric Turner provided an overview of AASB activities to date in response to the IAASB's Consultation Paper, "Enhancing the Value of Auditor Reporting: Exploring Options for Change." Mr. Turner explained that this paper is not a proposed standard. Further, the normal process of issuing an invitation to comment on the paper and waiting for people to respond would not likely be effective in this case. He reported that the AASB and staff took a proactive approach with a number of consultations being held with targeted stakeholders. In addition, a webinar was held to obtain input on the Consultation Paper from a wide variety of participants.

Anthony Campione presented results from the webinar. He noted that while a number of participants in the webinar agreed that changes should be made to the form and content of auditor's reports, there was no consensus on what the nature and extent these changes should be.

AASOC discussed the Consultation Paper and whether AASOC should prepare its own response to the IAASB. AASOC concluded that it would not draft its own response, but that members would receive a copy of the draft AASB response and would provide comments to staff.

[Eric Turner and Anthony Campione left the meeting]

8. CPAB 2010 Public Report

Brian Hunt reviewed the CPAB 2010 Public Report. He provided AASOC with overall inspection statistics for 2010, noting the number of firms inspected, the number of audit files reviewed, the number of restatements or potential restatements needed as a result of the inspection and the number of firms on which CPAB placed requirements. He noted that overall audit quality is generally sound. He stated that CPAB takes a “zero-tolerance” approach with regard to audit deficiencies (similar in concept to the way airlines take “zero tolerance” approach to crashes). CPAB’s recommendations in the report include enhanced engagement supervision and review, the need for heightened professional skepticism, coaching, mentoring and real-time reviews, and the need to strengthen the role of the engagement quality control reviewer.

Mr. Hunt noted that CPAB’s strategic plan includes outreach to stakeholders other than audit firms. CPAB’s main focus for the next year will be audit committees. In particular, CPAB believes that audit committees can play a significant role in improving audit quality. CPAB’s concern is in regard to competition for audits and requests by audit committees for firms to arbitrarily reduce audit fees.

9. Termination

There being no further matters to discuss, the meeting was terminated.

Bill McFetridge, Chair

Jacqui Kuypers, Secretary