

**BASIS FOR CONCLUSIONS
CANADIAN AUDITING STANDARD (CAS) 200,
Overall Objectives of the Independent Auditor and the Conduct of an Audit
in Accordance with Canadian Auditing Standards**

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards.”

Background

In April 2007, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Standards on Auditing (ISA) 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards (ED-ISA 200).” The IAASB approved final ISA 200 in September 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in October 2008.

In June 2007, the AASB issued its Exposure Draft to adopt proposed ISA 200 as CAS 200 (ED-CAS 200) to replace:

- Section 5021, AUTHORITY OF AUDITING AND ASSURANCE STANDARDS AND OTHER GUIDANCE (with respect to those aspects that are relevant to auditing engagements);
 - Section 5090, AUDIT OF FINANCIAL STATEMENTS — AN INTRODUCTION;
 - Section 5095, REASONABLE ASSURANCE AND AUDIT RISK;
 - Section 5100, GENERALLY ACCEPTED AUDITING STANDARDS;
- and

There were 8 respondents to ED-CAS 200 (identified below).

The AASB approved CAS 200 in October 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 200 is available on the [IAASB web site](#), and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 200.

- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 200 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

References to the International Federation of Accountants' Code of Ethics

1. The ED-ISA 200 included references to the "IFAC Code" as follows:

"The auditor is subject to independence and other ethical requirements, which ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants related to an audit of financial statements together with national requirements that are more restrictive."

The ED-CAS 200 proposed to replace these references with:

"In Canada, the relevant independence and other ethical requirements are set out in the rules of professional conduct/code of ethics applicable to the practice of public accounting issued by various provincial institutes of public accountants."

2. Two respondents to the ED-CAS 200 requested that wording referring to "provincial institutes of public accountants" be changed to refer to "professional accounting bodies." They noted that in some provinces, professional accountants who are not members of "provincial institutes" are able to perform audits. The AASB considered this matter and agreed with the respondents. The relevant wording was changed to read as follows:

"In Canada, relevant independence and other ethical requirements are set out in rules of professional conduct/code of ethics applicable to the practice of public accounting issued by various professional accounting bodies."

3. Two respondents suggested that in instances where a "public accountant" in Canada may not be a member of any professional body, the "public accountant" should comply with the IFAC Code or at the very least, some other minimum benchmark. In considering this matter, the AASB decided that it was not practicable for the AASB to mandate use of a minimum set of rules of professional conduct for accountants who are not members of a professional accounting body to follow. Further, the AASB noted that paragraphs CA14-A17 provide robust application and other explanatory material regarding fundamental principles relevant to ethical requirements, including the need for the auditor to be independent of the entity being audited in both mind and appearance.
4. A respondent requested that wording in the CAS state that: "In Canada, the relevant independence and other ethical requirements are ordinarily set out in

the rules of professional conduct etc. The respondent noted that the word “ordinarily” appears in the wording in the ISA 200 and expressed the view that its inclusion in the CAS would allow for the circumstance where a public sector auditor may be in conflict with a rule of professional conduct but is required by legislation to perform an audit and cannot resign from the engagement. The AASB concluded that the word “ordinarily” should not be included in the CAS as suggested by the respondent. The word “ordinarily” in the ISAs is not meant to imply that applicable rules of professional conduct do not have to be followed. Further, the circumstance referred to by the respondent relates to laws and regulations governing the conduct of an audit in a public sector environment. The CAS cannot override such law or regulation.

Substantive Procedures Performed in Prior Periods

5. One respondent was of the view that paragraph A20 appears to allow substantive procedures performed in prior periods to be used as audit evidence. The respondent suggested that, at the very least, this paragraph should be clarified and restricted. In finalizing ISA 200, the IAASB addressed this matter by amending paragraph A20 (now paragraph A28) to state that audit evidence may include information obtained from other sources such as previous audits “provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit.”

Early Adoption

6. Paragraph A54 states that “unless otherwise stated in the CAS, the auditor is permitted to apply a CAS before the effective date specified therein.” A respondent was of the view that early adoption of the CASs should be prohibited since auditors could choose to early implement only those changes that they like and perhaps not comply with certain requirement in existing Canadian GAAS. The AASB agreed with the respondent that it is important to be clear which set of standards is in effect. The Preface to the CICA Handbook – Assurance includes guidance explaining that an auditor performing an engagement for years ending on or after December 14, 2010 must comply with all the standards in effect prior to the effective date of the CASs. However, such an auditor may choose to implement aspects of the CASs considered appropriate on such engagements provided that the auditor still complies with all the existing standards. This, and other issues related to transition, will be clearly set out in the Handbook. The concept of early adoption of a new standard as set out in CAS 200 is consistent with the position in the existing Handbook. It is also appropriate for the use of new standards issued after the CASs come into effect. Accordingly, the AASB concluded that no change in wording in CAS 200 is warranted.

Definitions in Section 5095

7. A respondent stated that certain definitions in Section 5095 do not appear in CAS 200 and that such definitions should be retained. The terms referred to by the respondent appear in various CASs. A Glossary of Terms specific to the CASs and Canadian Standards on Quality Control, similar to the Glossary of Terms in the IFAC Handbook, will be included in the Handbook that takes effect for years ending on or after December 14, 2010.

The Term “Generally Accepted Auditing Standards”

8. A respondent was of the view that dropping the term “generally accepted auditing standards” (GAAS) may be problematic as there is a large body of literature, regulation and statute that uses this term. The AASB agreed with the respondent and the CASs will continue to refer to the term “Canadian generally accepted auditing standards” in the auditor’s reports in Canada. The use of this term will be explained in the Preface to the CICA Handbook – Assurance.

Definitions of “Applicable Financial Reporting Framework”, “Fair Presentation Framework” and “Compliance Framework”

9. One respondent expressed the view that the definitions of “fair presentation framework” and “compliance framework” are obscure and that it is not clear which of the two frameworks currently applies in Canada. The respondent also expressed the view that paragraph A4, which provides guidance with respect to the term “applicable financial reporting framework”, should refer to an appropriate Canadian GAAP hierarchy until such time as it is replaced (i.e., when the International Financial Reporting Standards (IFRS) are adopted in Canada). Another respondent was of the view that the definition of “applicable financial reporting framework” was not consistent with other definitions and concepts in the Handbook. The AASB agreed that the various terms referred to by the respondents are new in Canada. The existing Handbook is premised on the use of only one reporting framework — Canadian GAAP — whereas the audit reporting model in the CASs recognizes that auditors may be requested to report on different frameworks in different circumstances, in a global context. The AASB believes that it is a fundamental principle of adopting the ISAs that Canadian auditors be able to report on a global basis. Accordingly, the AASB did not make any changes to the definitions in ISA 200. However, the AASB agrees that further communication is required regarding the new audit reporting model and its implications. As part of the overall communication strategy applicable to the adoption of the CASs, a decision will be made regarding the appropriate format, content and delivery method for further communications and guidance in this respect.

Other Matters

None.

List of Respondents to ED-CAS 200

Auditor General Alberta

BDO Dunwoody LLP

Canadian Public Accountability Board

Deloitte & Touche LLP

Henry Lawrie, FCA

Institute of Chartered Accountants of British Columbia

Ordre des comptables agréés du Québec

Provincial Auditor Saskatchewan