

September 2009

**BASIS FOR CONCLUSIONS
CANADIAN AUDITING STANDARD (CAS) 210,
Agreeing the Terms of Audit Engagements**

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 210, “Agreeing the Terms of Audit Engagements.”

Background

In January 2008, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Standard on Auditing (ISA) 210 (Redrafted), “Agreeing the Terms of Audit Engagements” (ED-ISA 210). The IAASB approved final ISA 210 in December 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in March 2009.

In January 2008, the AASB issued its Exposure Draft to adopt proposed ISA 210 as CAS 210 (ED-CAS 210) to replace Section 5110, TERMS OF THE ENGAGEMENT. There were 12 respondents to ED-CAS 210 (identified below).

In February 2009, the AASB issued its Re-exposure Draft (Re-ED CAS 210) to request stakeholder input on the AASB’s decision not to make an amendment to the ISA wording regarding an Other Matter paragraph in the auditor’s report as proposed in ED-CAS 210, and a proposed amendment to supplement the guidance in paragraph A8 of the CAS.

There were 12 respondents to Re-ED CAS 210 (identified below).

The AASB approved CAS 210 in May 2009. 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 210 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 210.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 210 and Re-ED CAS 210 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. CAS 210 contains amendments to the ISA wording as proposed in the Re-ED CAS 210. Virtually all respondents to the Re-ED CAS 210 were supportive of the amendments.

The Audit Reporting Model

2. As reflected in ED-CAS 210, the AASB held the view that the form of report on general purpose financial statements under the IAASB audit reporting model did not sufficiently differentiate financial statements prepared in accordance with an established financial reporting framework (such as generally accepting accounting principles (GAAP)) from those that are prepared in accordance with an acceptable financial reporting framework that is not an established framework. Canada has a sophisticated set of accounting standards, developed over many years, with respect to the preparation and presentation of general purpose financial statements for all types of entities. This has been reflected in most incorporating or other governing legislation of Canadian entities. The AASB believes that readers of audited financial statements have come to expect that such financial statements have been prepared in accordance with Canadian GAAP or, in certain circumstances, recognize financial reporting frameworks such as US GAAP and International Financial Reporting Standards (IFRSs). It also believes that readers expect to be alerted when such financial statements have not been prepared in accordance with an established GAAP.
3. Accordingly, ED-CAS 210 contained a proposed amendment to require auditors, in the following situation, to advise management or, where appropriate, those charged with governance, in the terms of the audit engagement that the auditor's report on the entity's financial statement will incorporate an Other Matter paragraph, with a subheading titled "Financial Reporting Framework." This situation is when the financial reporting framework to be used in preparation and presentation of general purpose financial statements is not the financial reporting standards established by an organization authorized or recognized to promulgate standards to be used by certain types of entities. The Other Matter paragraph would be in accordance with proposed CAS 706 "Emphasis

of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor’s Report,” and would:

- (a) indicate that the financial statements have not been, and were not intended to be, prepared and presented in accordance with Canadian generally accepted accounting principles; and
- (b) describe, or draw users’ attention to additional disclosures in the notes to the financial statements that describe:
 - (i) each difference between the basis on which the financial statements are prepared and Canadian GAAP that are applicable to its financial statements, or state that there are no such differences; and
 - (ii) how the reported financial position and performance of the entity would have differed if it had complied with Canadian GAAP.

4. While respondents to ED-CAS 210 were supportive of the importance of Canadian GAAP to financial reporting in Canada, and virtually all supported the need to make amendments to proposed ISA 210, the views of respondents with respect to the nature and effectiveness of the proposed amendment were mixed. The following summarizes the significant points raised by respondents.

- (a) Legislative auditors took the position that the requirements and guidance on determining the acceptability of a financial reporting framework in ED-CAS 210 are open to different interpretations. In particular, they noted that paragraph A9 of ED-CAS 210 could be interpreted as suggesting that a financial reporting framework prescribed by law or regulation by default is an acceptable framework. As a result, they concluded that the proposed amendment in ED-CAS 210 would make it more difficult for auditors to conclude that a legislated framework for general purpose financial statements is not acceptable and possibly lead to the increased use of inappropriate frameworks.
- (b) Legislative auditors are prevented by their mandates from refusing to accept engagements to audit the financial statements of their respective governments and related bodies. Further, governments have the power to set their own accounting policies. Accordingly, legislative auditors noted that the proposed amendment may place them in the position of having to issue unmodified compliance reports with an Other Matter paragraph on general purpose financial statements prepared using a basis of accounting other than GAAP, when current practice would be to issue a qualified opinion on such financial statements.
- (c) Some respondents took the position that the amendment did not go far enough because it did not mandate the use of Canadian GAAP in all cases. Other respondents accepted that Canadian GAAP might not be used for general purpose financial statements in all cases but expressed the view that the amendment should be strengthened by requiring quantification of the differences between the basis of accounting used and GAAP, similar to what would be required when the auditor issues a qualified opinion.
- (d) Some respondents took the position that the amendment was not justified under the AASB’s criteria for making amendments to the ISAs because, in their view, Canadian readers of audit reports are no less sophisticated than readers in other jurisdictions. Accordingly, there is no “particular circumstance in Canada” that

warrants a different solution. As long as stakeholders carefully read the auditor's report and the notes to the financial statements, they should be able to determine the basis of accounting used in preparing the financial statements and respond accordingly.

- (e) Some respondents expressed the following concern.
 - (i) The required disclosures of the differences between the basis of accounting used and GAAP would likely not be identified by management and so auditors would have to take responsibility for identifying these differences and including them in the auditor's report. Therefore, the proposed amendment would likely result in long and cumbersome audit reports.
 - (ii) There is an assumption that the comparison between the basis of accounting used and GAAP will be relevant to the readers of the financial statements, which may not be the case.
 - (iii) The comparison between the basis of accounting and GAAP may be of limited value in future because, under proposals of the Canadian Accounting Standards Board, there will be several different possible frameworks for preparation of general purpose financial statements and users may consider that the framework used for the comparison in the auditor's report is not appropriate for their purposes.
 - (f) Some respondents also stated that some audit engagements may be reconstituted as audits in accordance with the ISAs rather than the CASs in order to avoid the mandatory Other Matter paragraph in the auditor's report.
 - (g) Some respondents also noted that under the CASs an auditor may issue an Other Matter paragraph when the auditor believes that it is necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit. Therefore, an auditor may make the disclosures in the auditor's report even without the proposed amendment.
5. In reviewing the matters raised by respondents, the AASB agreed that the proposed amendment to the auditor's report in ED-CAS 210 contains some significant drawbacks. In addition, the AASB acknowledged that Canadian auditors may have difficulty applying the guidance in ED-CAS 210 when determining the acceptability of a financial reporting framework in the Canadian context. It recognized that the proposed amendment was not intended to address the auditor's determination of the acceptability of the financial reporting framework. It was focused on the form of auditor's report on financial statements prepared using an acceptable financial reporting framework other than an established GAAP. The AASB recognized that if Canadian auditors have difficulty in determining the acceptability of a financial reporting framework, there is a risk that auditors may accept frameworks that are not, in fact, acceptable and this may lead to a decline in the quality of financial reporting in Canada.
6. In considering how best to address the comments made by respondents, the AASB noted that the final ISA 210 includes improvements over proposed ISA 210, on which ED-CAS 210 was based, that responded to concerns raised by the AASB and others concerning unacceptable financial reporting frameworks prescribed by law or regulation. Paragraphs

19-20 of final ISA 210 require that when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the engagement only if:

- (a) management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading; and
- (b) it is recognized in the terms of the audit engagement that:
 - (i) the auditor's report will incorporate an Emphasis of Matter paragraph; and
 - (ii) the auditor's opinion will not include the phrase "present fairly, in all material respects."

7. If these conditions are not present, and the auditor is required by law or regulation to undertake the engagement, the auditor shall evaluate the effect of the misleading nature of the financial statements on the auditor's report, and include appropriate reference to this matter in the terms of the audit engagement. The AASB believes that these requirements assist, for example, a legislative auditor who is required to report on financial statements prepared using an unacceptable financial reporting framework to report appropriately when the financial statements are misleading. Therefore, the AASB believes that paragraphs 19-20 in ISA 210 address the concern expressed by legislative auditors that some general purpose financial statements, prepared using a compliance financial reporting framework, could be misleading but that the legislative auditor would nevertheless have to issue an unmodified auditor's report on such statements.
8. The AASB reconsidered whether the form of the auditor's report needed to be amended as proposed in ED-CAS 210. The fundamental question is whether readers of audit reports will be misled by the new form of auditor's report in the CASs. The AASB concluded that it should not make the proposed amendment in ED-CAS 210 for the following reasons.
 - (a) Respondents' concerns about the drawbacks of the proposed amendment in ED-CAS 210 are compelling to the extent the proposed amendment would not have achieved its objective of improving readers' understanding of the auditor's report.
 - (b) Auditors are permitted under the CASs to add Other Matter paragraphs to their audit reports when they consider it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in their judgment, is relevant to users' understanding of the audit.
 - (c) In Re-ED CAS 210, the AASB proposed to supplement the material in paragraph A8 of ISA 210 so that auditors will be less likely to find acceptable a financial reporting framework that is not one of the frameworks referred to in the proposed new paragraphs.
9. In the Re-ED CAS 210, stakeholders were asked to indicate whether they support the AASB's decision not to make an amendment regarding an Other Matter paragraph in the auditor's report, as proposed in ED-CAS 210. All of the respondents were supportive of the AASB's decision not to make such an amendment.

Supplemental Guidance on Determining the Acceptability of the Financial Reporting Framework for General Purpose Financial Statements

10. As reflected in Re-ED CAS 210, the AASB proposed an amendment to ISA 210 to supplement the application material in paragraph A8 as follows:

CA8a In Canada, incorporating or other governing legislation often specifies that generally accepted accounting principles be used when preparing general purpose financial statements. Such legislation usually indicates that generally accepted accounting principles means “the standards set out in the Handbook of the Canadian Institute of Chartered Accountants.” The Handbook contains the accounting standards promulgated by the Accounting Standards Board and the Public Sector Accounting Standards Board. In Canada, these standards are generally accepted and are relevant in determining the acceptability of the applicable financial reporting framework even when incorporating or other governing legislation does not specify that generally accepted accounting principles be used when preparing general purpose financial statements.

CA8b Some legislation and regulation also permits certain reporting issuers to use International Financial Reporting Standards, promulgated by the International Accounting Standards Board, or United States generally accepted accounting principles, promulgated by the US Financial Accounting Standards Board.

11. The AASB proposed these amendments to provide a useful benchmark for auditors in Canada to use when determining whether a financial reporting framework other than an established financial reporting framework is acceptable in a Canadian context. The guidance in paragraph CA8a is factual in that it describes the situation in Canada, for both the private and public sector entities, as to the financial reporting frameworks to be used for general purpose financial statements. The guidance in paragraph CA8b deals with the fact that certain regulations in the Canada Business Corporation Act and provincial securities acts permit entities to use IFRSs and US GAAP in certain circumstances. Being application material, this guidance does not change the requirements of the ISAs nor prevent an auditor from complying with both the CASs and the ISAs. Auditors will still be able to report on the full range of financial reporting frameworks determined as acceptable under the ISAs.
12. While virtually all respondents to the Re-ED CAS 210 supported the AASB’s decision to supplement the guidance in paragraph A8 with paragraphs CA8a and CA8b, most legislative auditors were of the view that it was still not sufficient to alleviate some of the concerns they had raised in their response to the ED-CAS 210. The following is a summary of the significant comments made.
 - (a) Many respondents noted that paragraph A9 (which indicates that in the absence of indications to the contrary, a financial reporting framework set by law or regulation is presumed to be acceptable for general purpose financial statements for certain types of entities) could be interpreted as suggesting that a financial reporting framework prescribed by law or regulation is an acceptable framework. Because paragraph A9

does not provide an example of "indications to the contrary" that would contradict the presumption of the acceptability of a framework prescribed by law or regulation, some respondents felt that some auditors could perceive a contradiction between paragraphs CA8a and A9. These respondents suggested that CAS 210 should contain an amendment to paragraph A9 of ISA 210 to limit acceptable financial reporting framework to Canadian GAAP. One respondent suggested that CAS 210 should contain an amendment to ISA 210 to repeat that standards contained in the Handbook are generally accepted accounting standards in Canada and relevant to determining the financial reporting framework. Another respondent suggested that paragraph CA8a should explain what general purpose financial reporting frameworks, other than those of the CICA, are presumed to be acceptable in Canada.

- (b) A respondent noted that paragraph CA8b serves no purpose and is incorrectly limited to reporting issuers. This respondent was of the view that the wording of paragraph A8 leaves no doubt as to the acceptability of IFRSs and US GAAP. In addition, these frameworks are, and will continue to be, used by entities other than reporting issuers. Therefore, this respondent was of the view that there is no reason to limit the application of these frameworks to reporting issuers.
 - (c) Some respondents expressed the view that paragraphs 19-20 do not provide adequate direction for the auditor to advise the user of the financial statements that the statements do not present fairly the financial position and results of operations and put legislative auditors in a position of having to issue an unmodified opinion if the government has made adequate disclosures. A respondent suggested that CAS 210 should contain an amendment to paragraph A9 of ISA 210 to indicate that paragraphs 19-20 should not be interpreted as prohibiting the auditor from expressing an adverse opinion if the auditor believes this is clearly warranted.
 - (d) Some respondents expressed the view that additional disclosures could never properly address conflicts between financial reporting requirements and additional requirements in law or regulation (as discussed in paragraph 18 below) and avoidance of financial statements being misleading (as discussed in paragraph 19 below).
13. The AASB considered the matters raised by the respondents and, for the reasons set out below, concluded that the wording of the amendments proposed in Re-ED CAS 210 should remain unchanged with no additional amendments made to ISA 210 in finalizing CAS 210.
- (a) The existing Handbook is premised on the use of only one financial 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 operate on a global basis and audit financial statements prepared in accordance with any acceptable financial reporting framework.
 - (b) The intention of paragraph CA8b is not to limit the acceptability of IFRSs and US GAAP to reporting issuers. It is a factual statement regarding what certain regulations in the Canada Business Corporation Act and provincial securities acts permit. This paragraph helps distinguish these circumstances from the usual circumstance (Canadian GAAP) covering most entities.

- (c) The AASB believes that the CASs appropriately recognize that a legislative auditor (or other auditor) may:
 - (i) determine that a financial reporting framework prescribed by law or regulation is not acceptable; and
 - (ii) issue a modified opinion if he/she concludes that financial statements prepared in accordance with a financial reporting framework prescribed by law or regulation are misleading.

How Complying with the CASs Would Lead an Auditor to Issue a Modified Opinion when the Financial Statements, Prepared Using a Framework Prescribed by Law or Regulation, are Misleading

- 14. Before the auditor can accept an engagement, CAS 210 paragraph 6(a) requires the auditor to determine whether the applicable financial reporting framework is acceptable. CAS 210, paragraphs A4 -A8, provide guidance for determining the acceptability of financial reporting frameworks for general purpose financial statements. The AASB supplemented this guidance with paragraphs CA8a and CA8b, which provide Canadian auditors with a reference point for judging the acceptability of a financial reporting framework used to prepare general purpose financial statements.

Financial Reporting Standards Supplemented by Law or Regulation

- 15. Where law or regulation supplements the financial reporting standards established by an authorized or recognized standards setting organization with additional requirements, the applicable financial reporting framework encompasses both aspects. Paragraph A34 of CAS 210 provides examples where additional requirements do not cause conflict that the auditor may find useful when assessing the adequacy of additional disclosures. These examples reinforce that the acceptable additional requirements are those that augment the identified financial reporting framework or are available within that framework. Paragraph 18 of CAS 210 requires the auditor to determine whether the additional requirements conflict with those standards before accepting the engagement. Paragraphs 18(a) and 18(b) of CAS 210 note that it may be possible for such a conflict to be resolved through additional disclosures in the financial statements or a change to the description of the framework. Some respondents expressed the view that such conflicts could never be properly addressed by additional disclosures. The IAASB and the AASB did not feel that it would be appropriate to rule out the possibility of disclosures addressing the conflict. It was decided that this should be a matter of professional judgment for the auditor. In some circumstances, it may well be the case that the auditor will conclude that neither additional disclosures nor a change in the description of the framework will make it possible to resolve the conflict. In such circumstances, the auditor would consider whether the nature and extent of the conflict affects the acceptability of the financial reporting framework. If the auditor determines that the financial reporting framework is acceptable, the auditor may accept the engagement but may need to issue a modified opinion (for example, if the auditor is required to report whether the financial statements are fairly presented in accordance with the financial reporting standards but, because of the conflicts between the financial reporting standards and additional requirements, the financial statements are not

fairly presented). Paragraph 18 of CAS 210 requires the auditor to determine whether a modified opinion is required by reference to CAS 705, “Modifications to the Opinion in the Independent Auditor’s Report.” If the auditor expects to issue a modified opinion, the auditor is required to refer to this matter in the audit engagement letter under paragraph 10(e) of CAS 210.

16. If the auditor determines that the nature and extent of the conflicts between the financial reporting standards and the requirements of law or regulation result in the financial reporting framework being unacceptable the auditor should not accept the engagement, unless required by law or regulation to do so. No auditor (including a legislative auditor) should be associated with misleading financial statements. In this circumstance, to avoid being associated with misleading financial statements, the auditor would refer to CAS 705 and modify his or her opinion accordingly.

Financial Reporting Framework Prescribed by Law or Regulation

17. Law or regulation may prescribe a fair presentation or a compliance financial reporting framework to be used in the preparation of general purpose financial statements. Paragraph A9 of CAS 210 indicates that, in the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared by such entities. An example of “indications to the contrary” would be when the auditor determines that the financial reporting framework prescribed by law or regulation results in misleading financial statements. This will often be the case in Canada when the financial reporting framework is not one of the frameworks discussed in paragraphs CA8a or CA8b of CAS 210. When the auditor has determined that the financial reporting framework would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor would not accept the engagement unless the conditions set out in paragraph 19 of CAS 210 are met.
18. Paragraph 19(a) of CAS 210 deals with the circumstance where management agrees to provide additional disclosures in the financial statements required to avoid them being misleading. Some respondents expressed the view that misleading financial statements could never be prevented by additional disclosures. The IAASB and the AASB did not feel that it would be appropriate to rule out the possibility that additional disclosures could prevent financial statements from being misleading. The IAASB and the AASB concurred that whether additional disclosures can avoid the financial statements being misleading is a matter of professional judgment for the auditor, taking into account the circumstances encountered.
 - (a) In some circumstances, a financial reporting framework prescribed by law or regulation, together with additional disclosures, may result in financial statements that are not misleading. If the auditor determines that the additional disclosures do avoid the financial statements being misleading, the auditor would be able to accept the engagement and issue a clean opinion. However, paragraph 19(b)(ii) of CAS 210 prohibits the use of the phrase “present fairly” in the auditor’s opinion, unless the auditor is required by law or regulation to do so, because the financial reporting

framework in these circumstances could not have the characteristics of a fair presentation framework.

(b) Auditors may well encounter circumstances when a financial reporting framework prescribed by law or regulation is not one of the financial reporting frameworks described in paragraphs CA8a or CA8b of CAS 210 and, in the professional judgment of the auditor, the deficiencies in the financial reporting framework are so significant that additional disclosures will not rectify the inappropriate accounting in the financial statements. If the auditor has a choice, he or she would not accept the engagement in such circumstances.

19. If a legislative auditor has no choice but to accept an engagement in the circumstances described in paragraph 18(b) above, paragraph 20 of CAS 210 applies. Under paragraph 20 of CAS 210, the auditor is required to evaluate the effect of the misleading nature of the financial statements on the auditor's report and include appropriate reference to this matter in the terms of the audit engagement. The auditor would perform such evaluation by reference to CAS 705 and modify his or her opinion accordingly.

Distinction between a Fair Presentation Framework and a Compliance Framework

20. As set out in paragraph 13 of CAS 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards," a "compliance framework" requires compliance with the requirements of the framework but unlike a "fair presentation framework" does not acknowledge that it may be necessary for management to provide disclosures beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement of the framework to achieve fair presentation. The auditor uses the phrase "present fairly" only when reporting on financial statements prepared using a fair presentation framework.

21. The decision tree appended to this Basis for Conclusions is intended to assist auditors in applying CAS 210 when deciding whether to accept an engagement based on whether a financial reporting framework (FRF) used for general purpose financial statements is acceptable.

Use of the Phrases "present fairly" and "give a true and fair view"

22. When describing the wording of the auditor's opinion, ED-ISA 700 referenced two phrases — "present fairly, in all material respects" and "give a true and fair view." In Canada, governing legislation often requires use of, and it is generally accepted practice to use, the phrase "present fairly, in all material respects." The AASB wished to maintain consistency of reporting in Canada in the future and believed it is important for auditors to continue to use that phrase. Accordingly, ED-CAS 700 proposed to require that when expressing an opinion on financial statements prepared in accordance with a fair presentation framework, the auditor would use only the phrase "present fairly, in all material respects" or "do not present fairly in accordance with," respectively and make no reference to the phrase "give a true and fair view.") A similar amendment was proposed in ED-CAS 705, "Modifications to the Opinion in the Independent Auditor's Report." Similarly, ED-CAS

210 proposed to delete the reference to the preparation of financial statements that “give a true and fair view” in accordance with the financial reporting framework.

23. Respondents to ED-CAS 210 were generally supportive of the AASB’s proposal that auditors continue to use the phrase “present fairly, in all material respects.” However, some respondents pointed out that the proposed amendments may have unintended consequences. These respondents noted that it is possible that a Canadian auditor may be asked to conduct an engagement in jurisdictions other than Canada where use of the phrase “give a true and fair view” is appropriate in the auditor’s report. Therefore, making it a requirement that the auditor use the phrase “present fairly, in all material respects” when reporting in accordance with the CASs would cause difficulty for Canadian auditors in accepting such engagements. They took the position that it would be inappropriate for CAS 210 to create such difficulty, given that the ISAs indicate that the two phrases are regarded as equivalent.
24. A respondent believed that the proposed amendment in ED-CAS 210 was not warranted because it did not meet the AASB’s criteria for an amendment since, in the respondent’s view, it did not relate to a matter that is “particular to the Canadian environment.” This respondent believed that the phrase “present fairly, in all material respects” will likely continue to be used in Canada even if the amendment is not made.
25. One of the AASB’s goals in adopting ISAs is to enable Canadian auditors to conduct audits on an equal footing with auditors in other jurisdictions. The proposed amendments were not intended to prevent auditors from accepting engagements in other jurisdictions where use of the term “give a true and fair view” might be required. Also, the AASB believed that most auditors will continue to use the phrase “present fairly, in all material respects” in the auditor’s opinion on the financial statements of Canadian entities even without various CASs containing a prohibition on the use of “give a true and fair view.” Further, “present fairly, in all material respects” and “give a true and fair view” when translated into French results in identical words with no discernible differences. Accordingly, the AASB concluded that it should not include amendments to delete the phrase “give a true and fair view” from the requirements in the ISAs. However, it is important that illustrations provide appropriate guidance as to the wording most commonly used when reporting on the financial statements of Canadian entities in accordance with the CASs. Therefore, the AASB has amended the wording in illustrations of the auditor’s opinion so that throughout the CASs the opinions refer only to “present fairly, in all material respects” and no reference is made to the phrase “give a true and fair view.” The Preface to the CICA Handbook – Assurance provides an explanation of these amendments to the ISAs.
26. In summary, based on the above conclusions, the AASB decided not to make the amendment proposed in ED-CAS 210, ED-CAS 700 and ED-CAS 705.

Reference to “fair presentation framework”

27. A respondent suggested that the last sentence of paragraph 4 of ED-CAS 210 (paragraph 6 of CAS 210) should be amended to eliminate the reference to “fair presentation framework” since it is already covered in the lead-in paragraph and, therefore, is unnecessary. In finalizing ISA 210, the IAASB recognized that this sentence is not a requirement and repositioned it to application and other explanatory material paragraph A15. The AASB concluded that an amendment to eliminate the reference to “fair presentation framework” should not be made. The concept of “fair presentation framework” is relevant in Canada and the meaning should not cause any confusion as it is defined in paragraph 13(a) of CAS 200.

Unrestricted Access

28. A respondent suggested that paragraph 4(b)(ii)c of ED-CAS 210 should be amended to specify that auditors should also have access to significant component entities in a group audit. The AASB concluded that such an amendment should not be made. The use of the word “entity” includes subsidiaries, divisions, and any other significant component entities.

Reconfirming Annually the Terms of Engagement

29. A respondent suggested that ISA 210 should be amended to state in CAS 210 that in Canada, the common practice is to reconfirm the terms of engagement annually. The IAASB considered the matter of annual reconfirmation of the terms of engagement and decided that this matter is an operational issue that may be common in practice but not a requirement that should be in the standard. The AASB concluded that such an amendment should not be made. Paragraph 13 of CAS 210 properly requires the auditor to consider whether circumstances require the auditor to revise or remind the entity of the terms of the audit engagements. Also, related application and explanatory material properly covers circumstances where it would be appropriate for the auditor to reconfirm the terms of the audit engagement.

Responsibility for Financial Statements

30. A respondent was of the view that the phrase “management and, where appropriate, those charged with governance” appears to be suggesting that there are situations where those charged with governance do not have responsibilities for the financial statements. The respondent suggested that ED-CAS 210, including conforming amendments, should be amended to omit the wording “where appropriate” in order to avoid inappropriate interpretation by stakeholders since, in Canada, this situation could almost certainly not occur. The AASB concluded that such an amendment should not be made. The AASB believed that the application and explanatory material paragraphs A12 -A22 of CAS 210 appropriately explain that the division of responsibilities for financial reporting may vary according to governance structure and relevant law or regulation. Such division of responsibilities is relevant in the Canadian context. Further, the CASs, like the ISAs, are

designed to enable an auditor to report in different circumstances, in a global context. Therefore, a fundamental principle of adopting the ISAs is that Canadian auditors are able to operate on a global basis.

Illustrative Audit Engagement Letter

31. A respondent suggested that ISA 210 should be amended to include in CAS 210 an example audit engagement letter similar to that in Section 5110. The respondent expressed the view that the example letter in Section 5110 provides stronger language in articulating management responsibilities than the example included in Appendix 1 of ED-CAS 210. The AASB considered this matter and concluded that under its criteria for amendments no amendment should be made. There is no circumstance particular to Canada that needs to be addressed in the example letter. The example in CAS 210 contains responsibilities of management that require acknowledgment, and is presented for illustrative purposes only. It is not meant to be all inclusive. Paragraphs A23 -A24 of CAS 210, include examples of other matters to which an engagement letter may refer.

Request for Additional Guidance

32. The ED-CAS 210 makes reference to “an organization authorized or recognized to promulgate standards to be used by certain types of entities.” A respondent urged the AASB to provide a list of such acceptable organizations, as it will not be possible for practitioners to determine or assess credentials on their own. The AASB concluded that no amendment should be made to ISA 210 in finalizing CAS 210 in this regard. Examples of such organizations are listed in paragraph A8 and in the supplemental guidance paragraphs CA8a and CA8b of CAS 210. The AASB will consider providing additional non-authoritative guidance on this topic.

Other Matters

None.

List of Respondents to ED-CAS 210

Auditor General Alberta
BDO Dunwoody LLP
Canadian Council of Legislative Auditors
Canadian Public Accountability Board
Deloitte & Touche LLP
Institute of Chartered Accountants of British Columbia
Karim Pradhan, CA
Office of the Superintendent of Financial Institutions
Ordre des comptables agréés du Québec
Provincial Auditor Saskatchewan
Provincial Comptroller's Division — Ministry of Finance, Saskatchewan
The CAAA Assurance Exposure Draft Comment Committee

List of Respondents to Re-ED CAS 210

Auditor General of Alberta
Auditor General of British Columbia
Auditor General of Canada
Auditor General of Manitoba
Auditor General of New Brunswick
Auditor General of Nova Scotia
Auditor General of Ontario
Deloitte & Touche LLP
Provincial Auditor Saskatchewan
Raymond Chabot Grant Thornton
The AC Group of Independent Accounting Firms Limited
Vérificateur général du Québec

Decision Tree — Whether to Accept an Engagement Based on Whether a Financial Reporting Framework (FRF) Used for General Purpose Financial Statements is Acceptable

