



Dating of the Practitioner's Report for Review and Other Assurance Engagements

March 2010

**COMMENTS MUST BE RECEIVED BY
MAY 15, 2010**

This Exposure Draft is issued by the Auditing and Assurance Standards Board. The Board is composed of persons drawn from public accounting and legislative auditing and includes those who represent other groups, such as industry, commerce and finance, and post-secondary education, from all parts of the country. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to comment on the Exposure Draft material. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggestion for alternative wording supported by specific reasoning. All comments received will

be available on the web site at www.aasb.ca 10 days after the comment deadline, unless confidentiality is requested.

**To be considered, comments must be received by
May 15, 2010, addressed to:**

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**For ease of handling, we prefer comments to be sent by
e-mail (in Word format), to:
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Highlights

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to:

- (a) issue a new ASSURANCE AND RELATED SERVICES GUIDELINE (Guideline), “Dating of the Review Engagement Report;” and
- (b) revise certain standards for assurance engagements, applicable Guidelines, CSQC 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements,” and the Preface to the CICA Handbook – Assurance (Handbook) to address matters related to the dating of the practitioner’s report.

The purpose of these proposed changes is to make concepts related to the dating of the practitioner’s reports on assurance engagements, and matters affected by such dating, consistent, where practicable, with the Canadian Auditing Standards (CASs).

Background

Dating of the Practitioner’s Report

CAS 700, “Forming an Opinion and Reporting on Financial Statements,” requires the auditor’s report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements. Therefore, CAS 700 does not recognize the concept of “substantial completion” in dating of the auditor’s report. STANDARDS FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5025, and applicable Guidelines, state that the date of substantial completion of the engagement should normally be used as the date of the practitioner’s report. Using this concept of substantial completion, the practitioner may date his or her report when the practitioner has identified and sought all the evidence required to support his or her report, and has obtained and examined substantially all such evidence; however, he or she will often be awaiting receipt of specific corroborating evidence or documentation, such as management’s written representations, before signing and releasing his or her report.

The AASB is of the view that regardless of the nature of the assurance engagement being performed, practitioners should take an approach to dating their applicable assurance engagement reports that is consistent with that in CAS 700. Revisions to the wording in Section 5025 and applicable Guidelines are needed to achieve such consistency.

The revisions proposed to Section 5025 and applicable Guidelines would eliminate use of the concept of substantial completion and replace it with a dating requirement that is the same as that in CAS 700. This means that the date of the practitioner’s report would be no earlier than the date by which the practitioner has obtained the sufficient appropriate evidence required to support his or her report. Such evidence includes, for example, obtaining management’s written representations.

The AASB believes that the dating convention in CAS 700 should apply to review engagements. However, the AASB is proposing to temporarily maintain the concept of “substantial completion” for review engagements. The reason for this is that the AASB is currently undertaking a project to revise the review engagement standards, and therefore, believes that any change related to dating of the review engagement

report needs to be integrated with other changes to the review engagement standards that will result from this project.

The guidance in the standards for review engagements on the concept of “substantial completion” is minimal. DATE OF THE AUDITOR’S REPORT, Section 5405, provides more guidance on this concept, but in the context of an audit of financial statements. Nevertheless, some public accountants performing a review engagement interpret the meaning of “substantial completion” by referring to Section 5405. However, Section 5405 is being removed from the Handbook when the CASs come into effect, and the concept of “substantial completion” will no longer apply to financial statement audits. The AASB believes that the removal of Section 5405 from the Handbook gives rise to a need for guidance on how the concept of “substantial completion” is applied to dating of the review engagement report. This guidance would be provided in the proposed new Guideline.

Timing of Engagement Quality Control Reviews

CAS 220, “Quality Control for an Audit of Financial Statements,” requires that the engagement partner not date the auditor’s report until the completion of the engagement quality control review (EQCR). The reason for this required approach is that the EQCR can reveal significant matters that need to be resolved before the auditor can determine whether he or she has obtained sufficient appropriate evidence to support the opinion in his or her report. QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5030, requires EQCRs to be completed prior to the issuance of the practitioner’s report, rather than on or before the date of the practitioner’s report. The AASB is of the view that regardless of the nature of the assurance engagement being performed, practitioners should take an approach to performing EQCRs that is consistent with that in CAS 220. Revisions to the wording in Section 5030 are needed to achieve such consistency.

The Preface and CSQC 1 include guidance that aligns with the guidance in Section 5030. The Preface and CSQC 1 specifies that, in Canada, the auditor’s report on financial statements or other historical financial information is not dated until the completion of the EQCR; for other assurance engagements, the practitioner’s report is not issued until the completion of the EQCR. To continue to be appropriately aligned with Section 5030, revisions to the Preface and CSQC 1 are now being proposed.

Main features

Proposed New Guideline

The proposed new Guideline provides guidance to the public accountant on dating of the review engagement report. In particular, it explains that the public accountant would not date his or her report before he or she has:

- (a) obtained representations from management, through inquiry and discussion, regarding management’s belief that the financial statements are complete and fairly presented in accordance with generally accepted accounting principles, and the acknowledgment of responsibility for those financial statements; and
- (b) performed sufficient procedures to support the content of his or her report.

Proposed Revisions to Assurance Engagement Standards and Applicable Guidelines

The following highlights the areas in which revisions are being proposed.

- Preface — Given the AASB’s proposed revisions to Section 5030 and CSQC 1, the AASB proposes removing the paragraph in Appendix 3 of the existing Preface

that explains that the timing of the EQCR for audits of financial statements or other historical financial information differs from all other assurance engagements.

- CSQC 1 — Consistent with the proposed revisions to Section 5030, the AASB proposes that, for all assurance engagements, when an EQCR is performed, that the practitioner’s report not be dated until the completion of the EQCR.
- Section 5025 — The AASB proposes that the concept of “substantial completion” be replaced with the concept that the practitioner needs to have obtained sufficient appropriate evidence (not just sought it) before dating of the practitioner’s report.
- Section 5030 — The AASB proposes that an EQCR be completed on or before the practitioner’s report is dated, rather than before the practitioner’s report is issued.
- AuG-6, Examination of a Financial Forecast or Projection Included in a Prospectus or Other Public Offering Document, and AuG-16, Compilation of a Financial Forecast or Projection — The AASB proposes that the wording in both Guidelines be revised to replace the concept of “substantial completion” with guidance that is consistent with that in Section 5025.

Effective date

The effective date of the revisions is for assurance engagements, the subject matter of which covers periods ending on or after December 14, 2010. The effective date corresponds with the effective date of the CASs since the revisions need to come into effect at the same date as the CASs.

Comments requested

Comments are most helpful when they are related to a specific paragraph or group of paragraphs, and when expressing disagreement, they clearly explain the problem, and include a suggestion for alternative wording supported by specific reasoning.

The AASB seeks comments regarding the following:

Proposed New Guideline

1. Do you agree with how the Guideline deals with the concept of “substantial completion” and its application to dating of the review engagement report?
2. Do you agree with the proposed wording of the Guideline?
3. Is there additional guidance that would be desirable?
4. Is there a significant effect on your work effort that will result from the implementation of this Guideline?

Proposed Revisions to Assurance Engagement Standards and Applicable Guidelines

5. Do you agree with the proposed revisions to the assurance engagement standards and applicable Guidelines?
6. Do you agree that the effective date of the revisions to the assurance engagement standards should correspond with the effective date of the CASs?

Proposed New Guideline

Dating of the Review Engagement Report

INTRODUCTION

- 1 GENERAL REVIEW STANDARDS, paragraph 8100.30, states: “The date of substantial completion of the review would be used as the date of the review engagement report. This can be described as the date by which the public accountant has performed sufficient procedures to support the content of the report.” The purpose of this Guideline is to assist the public accountant to address his or her responsibilities relating to dating of the review engagement report by providing guidance on the application of the concept of “substantial completion” in a review engagement.
- 2 This Guideline does not apply to engagements performed under AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section 7050.
- 3 The date of the public accountant’s report is intended to signify to the reader the date as of which the public accountant expresses his or her conclusion. The reader is entitled to assume that the public accountant has performed sufficient procedures to that date to support the conclusion expressed in his or her report. The public accountant expresses his or her conclusion on the financial statements and the financial statements are the responsibility of management. Therefore, the public accountant is not in a position to conclude that sufficient procedures have been performed and, consequently, date his or her report until the financial statements have been completed and management has acknowledged responsibility for them.

MANAGEMENT’S RESPONSIBILITY

- 4 A review is conducted on the premise that management has responsibility for the preparation and fair presentation of the entity’s financial statements in accordance with generally accepted accounting principles. There may be instances when the entity has not completed the financial statements and some adjustment or disclosure that could be material to the financial statements is still to be made. This may include, for example, the finalization of the entity’s income tax provision or the updating of the financial statements for subsequent events that require adjustment or disclosure. In such a case, the financial statements would be complete when the income tax provision is reflected in the financial statements or, in the case of subsequent events that require adjustment to or disclosure in the financial statements, when such events have been recognized or disclosed in the financial statements.

PUBLIC ACCOUNTANT’S RESPONSIBILITY

- 5 The public accountant is actively performing procedures, up to the date of substantial completion of the review, to determine whether the financial statements appear to be plausible in the circumstances within the framework of generally accepted accounting principles. If the entity is still in the process of completing the financial statements (for example, the finalization of the entity’s income tax provision), the related review procedures on the financial statement items or notes that remain to be completed will not yet have been performed by the public accountant. The review engagement report would be dated when the public

accountant has performed sufficient procedures to support the content of his or her report.

MANAGEMENT’S REPRESENTATIONS

Acknowledgment by management of its responsibility for the financial statements and its belief that the financial statements are complete

- 6 PUBLIC ACCOUNTANT’S REVIEW OF FINANCIAL STATEMENTS, paragraph 8200.31(b), requires the public accountant to obtain management’s written representations regarding matters that are important to support the content of his or her report. Such matters include:
- (a) management’s acknowledgment of its responsibility for the fair presentation of the financial statements in accordance with generally accepted accounting principles; and
 - (b) management’s belief that the financial statements are complete and presented fairly in accordance with generally accepted accounting principles.
- Obtaining, through inquiry and discussion, management’s representations in respect to matters (a) and (b) will assist the public accountant in determining whether sufficient procedures have been performed to support the content of his or her report, whether the review has been substantially completed and whether the date of the review engagement report has been established.

Obtaining management’s written representations

- 7 Management’s written representations, as required by PUBLIC ACCOUNTANT’S REVIEW OF FINANCIAL STATEMENTS, paragraph 8200.31, are a form of confirmation to the public accountant that management has fulfilled its responsibility as set out in the terms of the engagement. Since the public accountant is concerned with events and transactions up to the date of his or her report that may require adjustment to or disclosure in the financial statements, paragraph 8200.35 states: “The public accountant should ensure that management’s written representations are effective as of the date of the review engagement report.” This requirement recognizes that the public accountant obtains a signed written representations letter from management after the date of the report but before its release. However, the written representations are in effect, without exception, as of the date of the report.

Engagement quality control review

- 8 QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, paragraph 5030.43(c) states that for assurance engagements, when an engagement quality control review is performed, the practitioner should not date the practitioner’s report until the completion of the engagement quality control review. An engagement quality control review for a review engagement, if any, may be completed by the reviewer when the public accountant has obtained, through inquiry and discussion with management, management’s representations referred to in paragraph 6.

Management’s written representations reveal that financial statements are incomplete

- 9 If management’s written representations, obtained after the date of the review engagement report, reveal that the financial statements were not in fact complete when management provided the verbal representations referred to in paragraph 6, the public accountant may consider whether:
 - (a) the date of substantial completion and, therefore, the date of the review engagement report, needs to be amended; and
 - (b) the engagement quality control reviewer, if any, needs to be informed, since there may be implications for the engagement quality control review.

Management’s refusal to provide written representations

- 10 If management refuses to provide representations in writing, the public accountant is required to express negative assurance with a qualification or a denial of assurance in the review engagement report in accordance with PUBLIC ACCOUNTANT’S REVIEW OF FINANCIAL STATEMENTS, paragraph 8200.38. When an engagement quality control review (EQCR) was completed on or before the date of the review engagement report, the engagement quality control reviewer would have considered the practitioner’s proposed report when the EQCR was performed. Therefore, the public accountant informs the engagement quality control reviewer of the changes to the practitioner’s proposed report so that the EQCR may be updated.

Proposed Revisions to Assurance Engagement Standards and Applicable Guidelines

The following pronouncements would be amended as follows. Additions are indicated by underlining and deletions by strikethrough.

Preface to the CICA Handbook – Assurance

Appendix 3: Changes to the Wording of ISQCs and ISAs

This appendix sets out changes made to the wording of International Standards on Quality Control (ISQCs) and International Standards on Auditing (ISAs) so that Canadian Standards on Quality Control (CSQCs) and Canadian Auditing Standards (CASs) can be used in the context of the Assurance Handbook.

ISQC 1

The terms “IAASB,” “IAASB Engagement Standards,” “ISQC,” and “ISQCs” are replaced by the terms “AASB,” “Assurance Engagement Standards,” “CSQC,” and “CSQCs,” respectively.

ISQC 1 is applicable to audits, reviews, other assurance engagements and related services (for example, compilation engagements). CSQC 1 applies to assurance engagements only and does not apply to related services engagements such as compilations. Where ISQC 1 makes reference to the engagements to which it applies, these references have been changed to eliminate reference to related services engagements. The difference in scope is explained at the beginning of CSQC 1.

~~Certain procedures set out in CSQC 1 and related procedures in CAS 220, applicable to audits of financial statements and other historical information performed in accordance with the CASs, need to be performed before the date of the auditor’s report. In Canada, these same procedures set out in CSQC 1 and related procedures in Section 5030, applicable to all assurance engagements (other than audits of financial statements or other historical financial information), need to be performed before the date of issuance of the auditor’s report. In ISQC 1, the date of the auditor’s report (not the date of issuance) is applicable in all cases. Since the date of the auditor’s report and date of issuance of the auditor’s report may differ, references to the date of the auditor’s report in paragraphs 12(d), 36, 42, 44 and A42 of ISQC 1 have been changed to indicate that, for assurance engagements other than audits of financial statements or other historical information, the relevant date is the date of issuance of the practitioner’s report.~~

CSQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements

Definitions

C12. In this CSQC, the following terms have the meanings attributed below:

...

- (d) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the ~~auditor’s report, on financial statements or other historical financial information, or prior to the issuance of the practitioner’s report for other assurance engagements~~, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement

quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

Engagement Performance

Engagement Quality Control Review

36. The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement ~~auditor's report on financial statements or other financial information~~ not be dated until the completion of the engagement quality control review. ~~For other assurance engagements, the policies and procedures shall require that an engagement quality control review be completed before the issuance of the practitioner's report.~~ (Ref: para. A42-A43)

Documentation of the Engagement Quality Control Review

42. The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:
- (a) The procedures required by the firm's policies on engagement quality control review have been performed;
 - (b) The engagement quality control review has been completed:
 - (i) ~~For audits of financial statements or other financial information, on or before the date of the auditor's report; or~~
 - (ii) ~~For other assurance engagements, prior to the issuance of the practitioner's report; and~~
 - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Differences of Opinion

44. Such policies and procedures shall require that:
- (a) Conclusions reached be documented and implemented; and
 - (b) ~~The auditor's report on financial statements or other historical financial information not be dated, or, for other assurance engagements, the practitioner's report not be issued, until the matter is resolved.~~

Engagement Quality Control Review

Nature, Timing and Extent of the Engagement Quality Control Review (Ref: Para. 36-37)

- A42. ~~The auditor's engagement report on financial statements or other historical financial information is not dated until the completion of the engagement quality control review. For other assurance engagements, the practitioner's report is not issued until the completion of the engagement quality control review.~~ However, documentation of the engagement quality control review may be completed after:
- (a) ~~The the date of the auditor's report. on financial statements or other historical financial information; or~~
 - (b) ~~The issuance of the practitioner's report, for other assurance engagements.~~

Section 5025, STANDARDS FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION

- .70 The date of substantial completion of the engagement should normally be used as the date of the assurance practitioner's report; resulting from an assurance engagement should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the report.

Section 5030, QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION

Planning, supervision and review

- .32 ► *Prior to the issuance of his or her On or before the date of the practitioner's report, the practitioner, through review of the working papers and discussion with the assurance team, should be satisfied that sufficient appropriate evidence has been obtained to support the conclusions reached and the content of the practitioner's report.*

Differences of opinion

- .40 ► *If a difference of opinion arises within the assurance team, with those consulted, or between the practitioner and the engagement quality control reviewer, the assurance team should follow appropriate procedures for dealing with and resolving such difference of opinion. The practitioner's report should not be issued dated until the difference of opinion is resolved.*

Engagement quality control review

- .42 The purpose of an engagement quality control review is to provide an objective evaluation, on or before the practitioner's report is dated issued, of the significant judgments the assurance team made and the conclusions reached in formulating the practitioner's report.
- .43 ► *For assurance engagements where an engagement quality control review is performed the practitioner should:*
- (a) determine that an engagement quality control reviewer has been appointed;*
 - (b) discuss with the reviewer significant matters arising during the engagement, including those identified by the reviewer;*
 - (c) not date the practitioner's report until the completion of the engagement quality control review ensure that an engagement quality control review is completed before the issuance of the practitioner's report, including resolution, to the satisfaction of the reviewer, of matters raised by the reviewer; and*
 - (d) ensure that the engagement quality control review is appropriately documented*

**AuG-6, Examination of a Financial Forecast or Projection
Included in a Prospectus or Other Public Offering Document**

41 ... The public accountant's report should be dated no earlier than the date on which the public accountant has obtained sufficient appropriate evidence on which to base his or her report, as of the date of substantial completion of his or her examination, which should not be earlier than the effective date of the assumptions disclosed in the financial forecast. Normally, the public accountant would want to use the same date for his or her report as that used by management as the effective date of the assumptions because the public accountant is responsible for considering events occurring up to the date of the report.

AuG-16, Compilation of a Financial Forecast or Projection

20 The public accountant's communication should be dated no earlier than the date on which the public accountant has completed the compilation as of the date of substantial completion of the engagement, which should not be earlier than the effective date of the assumptions disclosed in the financial forecast or projection. Normally, the public accountant would want to use the same date for his or her communication as that used as the effective date of the assumptions.