



## **Authority of Guidelines Issued by the AASB January 2012**

**COMMENTS MUST BE RECEIVED BY  
APRIL 15, 2012**

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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 shortly after the comment deadline. The request for confidentiality must be stated explicitly within the response.

**To be considered, comments must be received by  
April 15, 2012, addressed to:**

**Greg Shields, CA  
Director, Auditing and Assurance Standards  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: [ed.assurancestds@cica.ca](mailto:ed.assurancestds@cica.ca)

## Highlights

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

- (a) the Preface to the CICA Handbook – Assurance to clarify the status and authority of Assurance and Related Services Guidelines and non-authoritative material;
- (b) CAS 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards,” to include a requirement regarding the practitioner’s responsibility with regard to Guidelines related to audits of financial statements and other historical financial information; and
- (c) AUTHORITY OF AUDITING AND ASSURANCE STANDARDS AND OTHER GUIDANCE FOR ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5021, to include a requirement regarding the practitioner’s responsibility with regard to Guidelines related to engagements other than audits of financial statements and other historical financial information and to remove outdated material.

The AASB is also proposing to withdraw three existing Assurance and Related Services Guidelines. The [Exposure Draft](#) containing this proposal accompanies this Exposure Draft. That Exposure Draft also explains that the AASB plans to issue non-authoritative Canadian Auditing Practice Notes (CAPNs).

## Background

The International Auditing and Assurance Standards Board (IAASB) has recently approved the withdrawal of all International Auditing Practice Statements (IAPSSs). Those IAPSSs carried the same status and authority of Assurance and Related Services Guidelines in Canada.

The AASB believes that it should retain and continue to develop these Guidelines to assist practitioners in the proper application of Canadian Standards on Quality Control (CSQCs), Canadian Auditing Standards (CASs) and Other Canadian Standards (OCSs). Some Guidelines applicable to audits of financial statements (for example, AuG-48, Legislative Requirements to Report on the Consistent Application of Accounting Principles in the Applicable Financial Reporting Framework), are still being used in practice. In 2010, the AASB issued two Guidelines (dealing the Joint Policy Statement with the Canadian Bar Association and dating of review engagement reports) indicating that there is still a clear need for this type of authoritative guidance. The AASB also notes that the IAASB will not prohibit a national standard setter from stating that it has complied with international standards provided that any national guideline does not contradict the related standard being adopted.

## Key features of the Exposure Draft

### *Preface to the CICA Handbook – Assurance*

The Preface sets out the scope and authority of the pronouncements issued by the AASB. The AASB is proposing changes to the Preface to develop a hierarchy explaining the relationship of the CASs, Guidelines and non-authoritative material. These proposed revisions include:

- clarifying the status and authority of Guidelines; and
- describing the distinction between the AASB's authoritative pronouncements and non-authoritative material, including CAPNs.

The AASB is also proposing some editorial changes to the wording in the Preface to reflect the AASB's Mission Statement, which was revised as a result of the issuance of the AASB's Strategic Plan for 2010-2013.

### *CAS 200*

CAS 200 sets out the overall objectives of the independent auditor and establishes the authority of contents of a CAS. The AASB is proposing a change to CAS 200 to clarify the practitioner's obligations with regard to Assurance and Related Services Guidelines related to the audit of financial statements and other historical financial information.

### *Section 5021*

Section 5021 provides guidance on the authority of Recommendations, explanatory material, interpretive publications and other auditing and assurance publications that a practitioner may refer to when performing an assurance engagement other than audits of financial statements and other historical financial information, or when providing related services. The AASB is proposing to clarify the practitioner's obligations with regard to Guidelines related to engagements other than the audit of financial statements and other historical financial information.

The AASB is also proposing to remove material dealing with interpretive publications and other auditing and assurance publications. The AASB believes that changes being made to the Preface to clarify the status and authority of Assurance and Related Services Guidelines supersedes the material in Section 5021 and makes it redundant.

### *Criteria for developing Guidelines*

The AASB proposes to establish two sets of criteria for developing Guidelines. One set of criteria would apply to Guidelines regarding standards for firm-level quality control and audits of financial statements or other historical financial information that have been adopted from international standards. These Guidelines cannot in fact or perception contain interpretations that would be inconsistent with the AASB's criteria for the adoption of those standards.

The other set of criteria would apply to Guidelines related to Other Canadian Standards where issues regarding the adoption of international standards do not apply.

These criteria, which would be applied prospectively, would be added to the Preface as Appendix 5.

### **Effective date**

Subject to the input the AASB receives from Canadian stakeholders, the changes proposed in this Exposure Draft would become effective September 1, 2012.

### **Comments requested**

The AASB requests comments on any aspect of the proposals discussed in this Exposure Draft.

The deadline for providing your comments to the AASB is April 15, 2012.

Comments are most helpful when they clearly explain the issues raised and suggest a specific course of action, supported by specific reasoning.

A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: [ed.assurancestds@cica.ca](mailto:ed.assurancestds@cica.ca)

# Authority of Guidelines Issued by the AASB

## PROPOSAL

The following text would be amended as follows. Additional text is indicated by underline and deleted text by ~~striketrough~~. Paragraphs that do not contain changes have been omitted, except where necessary to provide context for the proposed changes.

### Preface to the CICA Handbook – Assurance

#### Introduction

1. This Preface to the CICA Handbook – Assurance (the Assurance Handbook) is issued to facilitate understanding of the scope and authority of the pronouncements the Auditing and Assurance Standards Board (AASB) issues (~~referred to as Canadian standards~~), as set forth in the AASB’s Terms of Reference. The AASB’s membership and Terms of Reference are approved by the Auditing and Assurance Standards Oversight Council.
2. The AASB is committed to servicing the public interest by setting high-quality Canadian standards and guidance that enable the public accounting profession to provide effective auditing, other assurance and related services ~~that serve the public interest~~. In doing so, it participates in the development of global auditing and assurance standards that meet the needs of Canadian stakeholders.

#### The AASB’s Pronouncements

3. The AASB’s pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with Canadian standards. A practitioner should not represent compliance with Canadian standards unless the practitioner has complied fully with all of the Canadian standards relevant to the engagement.
- 3A. The authoritative pronouncements of the AASB comprise Canadian standards and Assurance and Related Services Guidelines. All are issued following AASB’s due process and are contained in the Assurance Handbook.
- 3B. The obligations associated with, and further description of, Canadian standards and Assurance and Related Services Guidelines issued by the AASB are provided below.

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## **The Authority Attaching to Assurance and Related Services Guidelines Issued by the AASB**

29. The AASB publishes Guidelines as the need arises from time to time. These Guidelines are issued to address an urgent issue or a unique Canadian circumstance where the AASB concludes that changing application or other explanatory material in one or more standards would not be the most appropriate approach. Criteria for issuing a Guideline are set out in Appendix 5, set out the AASB's views or opinions on:
- (a) Matters requiring the practitioner's consideration in situations not specifically addressed by existing Canadian standards; and
  - (b) Suggested procedures to provide helpful guidance to practitioners in interpreting Canadian standards.
30. Guidelines have the same status and authority as application and other explanatory material in the standards. express the views or opinions of the AASB but do not have the authority of Recommendations (or requirements, as appropriate) issued by the AASB. Guidelines do not impose requirements (or Recommendations). The AASB issues Guidelines to assist practitioners in the proper application of standards.
- ...
32. A practitioner is responsible for having an understanding of the entire text of a Guideline relevant to the engagement, to more fully understand and assist with the application of the requirements (or Recommendations, as appropriate) in any standard to which the Guideline relates. The practitioner should be aware of and consider Guidelines applicable to the engagement. If the practitioner does not apply the auditing and assurance guidance in a Guideline, the practitioner should document how he or she complied with the Recommendation (or requirement, as appropriate) addressed by such auditing and assurance guidance.

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### **Non-authoritative Material**

35. Non-authoritative material is not part of the CSQCs, CASs or Other Canadian Standards and do not impose additional requirements on practitioners beyond those included in the CSQCs, CASs or Other Canadian Standards, nor does it change the practitioner's responsibility to comply with all CSQCs, CASs or Other Canadian Standards relevant to the audit. Non-authoritative material includes Canadian Auditing Practice Notes (CAPNs) issued by the AASB and staff publications and may be published on the AASB website and/or in the CICA Standards and Guidance Collection. Non-authoritative material provides practical assistance to practitioners. Non-authoritative material

also provides material that firms can use in developing their training programs and internal guidance. Staff publications, which do not form part of the CSQCs, CASs or Other Canadian Standards, are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of AASB pronouncements.

### **Canadian Auditing Practice Notes**

36. Depending on the nature of the topic(s) covered, a CAPN may assist the auditor in:
- (a) obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
  - (b) making judgments about how to respond to assessed risks, including selection of procedures that may be appropriate in the circumstances; or
  - (c) addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.

### **Practice Notes Relating to Other Canadian Standards**

37. The AASB may also issue Canadian Review Engagement Practice Notes (CREPNs), Canadian Assurance Engagement Practice Notes (CAEPNs), and Canadian Related Services Practice Notes (CRSPNs) to serve the same purpose for Other Canadian Standards.

**Appendix 5**  
(Ref: Para. 29)

## **Criteria for the Development of Assurance and Related Service Guidelines**

This appendix sets out the criteria followed by the AASB in developing Assurance and Related Services Guidelines.

The AASB will issue an Assurance and Related Services Guideline regarding firm-level quality control or audits of financial statements or other historical financial information only when Canadian guidance is needed to interpret existing requirements in a Canadian Standard on Quality Control (CSQC) or a Canadian Auditing Standard (CAS) to deal with one or more of the following:

- (a) Canadian legal or regulatory matters;
- (b) Relationships established with bodies governing other professions in Canada (for example, the Canadian Institute of Actuaries); or
- (c) Circumstances particular to the Canadian environment, other than those noted in (a) and (b), where the AASB believes a Guideline is required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.

The AASB will issue an Assurance and Related Services Guideline regarding assurance and related services other than audits of financial statements or other historical financial information only when Canadian guidance is needed to interpret existing Recommendations in an Other Canadian Standard to deal with either of the following circumstances:

- (a) The AASB concludes that guidance is needed interpret existing Recommendations in one or more standards and it is not practicable to revise the relevant standard(s) within an appropriate timeframe; or
- (b) The AASB believes there are circumstances other than those noted in (a) where a Guideline is required to serve the Canadian public interest and maintain the quality of assurance and related services and reporting in Canada.

## **CAS 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards**

### **Conduct of an Audit in Accordance with CASs**

#### *Complying with CASs Relevant to the Audit*

- 18. The auditor shall comply with all CASs relevant to the audit. A CAS is relevant to the audit when the CAS is in effect and the circumstances addressed by the CAS exist. (Ref: Para. A53-A57)
- 19. The auditor shall have an understanding of the entire text of a CAS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A58-A66)
- 20. The auditor shall not represent compliance with Canadian generally accepted auditing standards in the auditor's report unless the auditor has complied with the requirements of this CAS and all other CASs relevant to the audit.

C20a. A practitioner shall have an understanding of the entire text of an Assurance and Related Services Guideline relevant to the engagement, to more fully understand and assist with the application of the requirements in any CAS to which the Guideline relates.

## **AUTHORITY OF AUDITING AND ASSURANCE STANDARDS AND OTHER GUIDANCE FOR ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5021**

### **PURPOSE AND SCOPE**

- .01 This Section provides guidance on the authority of Recommendations, explanatory material and Assurance and Related Services Guidelines that a practitioner may refer to when performing an assurance

engagement other than audits of financial statements and other historical financial information, or when providing related services.

## DEFINITIONS

- .02 The following definitions have been adopted for the purposes of this Section:
- (a) **Recommendations** constitute the professional standards issued by the Auditing and Assurance Standards Board (AASB) with which the practitioner should comply when performing an assurance engagement. Recommendations are contained in the Sections of the CICA Handbook – Assurance together with related guidance in the form of explanatory material. Handbook Sections are developed through a due process that includes deliberation in meetings, public exposure of proposals, and a formal vote. Recommendations, which are identified by italic type, are to be understood and applied in the context of the explanatory material that provides guidance for their application. It is therefore necessary to consider the whole text of a Handbook Section to understand and apply the professional standards.
  - (b) **Explanatory material** in Handbook Sections, including examples and appendices, is intended to provide further explanation and guidance on the professional standards. Such explanatory material explains the objective of the professional standards (where it is not otherwise self-evident) and why the practitioner should consider or employ particular procedures, depending on the circumstances, and provides additional information for the practitioner to consider in exercising professional judgment in performing the engagement. Explanatory material may also identify and describe other procedures or actions relating to the activities of the practitioner.
  - (c) ~~Interpretive publications~~ are auditing and assurance guidance on the application of Recommendations issued under the authority of the AASB. ~~Interpretive publications are not standards for assurance engagements. Interpretive publications include Assurance and Related Services Guidelines, which express views or opinions issued by the AASB on:~~
    - ~~(i) matters requiring the practitioner’s consideration in situations not specifically addressed by existing Recommendations; and~~
    - ~~(ii) suggested procedures to provide helpful guidance to practitioners in interpreting Recommendations.~~~~Guidelines are contained in the CICA Handbook – Assurance and are developed through a due process that includes deliberation in meetings and a formal vote, and may include public exposure of proposed Guidelines. Interpretive publications are listed in Appendix A.~~
  - (d) ~~Other auditing and assurance publications~~ include:
    - ~~(i) auditing and assurance publications of the CICA not referred to above;~~
    - ~~(ii) auditing and assurance articles in *CAmagazine* and other professional journals;~~

~~(iii) continuing education programs and other materials, textbooks, guide books, audit programs and checklists;~~  
~~(iv) auditing and assurance publications of other auditing and assurance standard setters; and~~  
~~(v) other auditing and assurance publications from provincial institutes, organizations and individuals;~~  
and have not been issued under the authority of the AASB. However, they may help practitioners understand and apply Recommendations. Those published by the CICA that have been reviewed by Auditing and Assurance Standards staff are listed in Appendix B.

## **PRACTITIONER'S RESPONSIBILITY**

### **Recommendations and explanatory material**

- .03 When issuing Recommendations, the AASB recognizes that no rule of general application can be phrased to suit all circumstances or combination of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what procedures are required for adherence to the professional standards. Recommendations need not be applied to insignificant matters; significance is a matter of professional judgment in the particular circumstances.
- .04 *► When exercising professional judgment as to the procedures required for adherence to the professional standards, the practitioner should identify, understand and comply with Recommendations in the CICA Handbook – Assurance that are applicable to the assurance engagement. The practitioner should not depart from such Recommendations unless there is a clear and compelling reason to do so. The practitioner should document the reason for any departure, and how the alternative was sufficient to achieve the objectives of the Recommendations.*
- .05 A practitioner has a responsibility to consider the whole text of a Handbook Section, including explanatory material, in order to aid in understanding the Recommendations. To the extent that explanatory material includes procedures or actions, these procedures or actions require the practitioner's consideration and understanding; how and whether the practitioner carries out such procedures or actions in the engagement will depend on the exercise of professional judgment in the circumstances consistent with the objectives of the Recommendations.

### **Assurance and Related Services Guidelines**

- .06 *► A practitioner should have an understanding of the entire text of an Assurance and Related Services Guideline relevant to the engagement, to more fully understand and assist with the application of the Recommendations in any standard to which the Guideline relates.*

## Interpretive publications

- ~~.06 —> The practitioner should be aware of and consider interpretive publications applicable to the assurance engagement. If the practitioner does not apply the auditing and assurance guidance included in an applicable interpretive publication, the practitioner should document how he or she complied with the Recommendations addressed by such auditing and assurance guidance.~~
- .07 — Interpretive publications may, for example, provide guidance on the application of Recommendations dealing with a specific topic in a Handbook Section. In other cases, such guidance may relate to Recommendations that apply more generally to an engagement. There is a presumption that if a practitioner does not apply the guidance in an interpretive publication that is applicable to the assurance engagement, the practitioner has not complied with the Recommendations addressed by such guidance unless the practitioner has documented how he or she complied.

## Other auditing and assurance publications

- ~~.08 — The practitioner may be aware of other auditing and assurance publications. However, the practitioner is not expected to be aware of the full body of other auditing and assurance publications when complying with professional standards, nor is the practitioner expected to consider all other auditing and assurance publications of which he or she is aware on each assurance engagement. The practitioner is expected to use professional judgment in determining whether to apply the auditing and assurance guidance in an other auditing and assurance publication on an assurance engagement.~~
- ~~.09 —> The practitioner applying the auditing and assurance guidance included in an other auditing and assurance publication should be satisfied that, in his or her professional judgment, it is both relevant to the circumstances of the assurance engagement and appropriate.~~
- .10 — In determining whether an other auditing and assurance publication is appropriate, the practitioner considers the degree to which the publication is recognized as being helpful in understanding and applying the Recommendations and the degree to which the issuer or author is recognized as an authority in auditing and assurance matters. An other auditing and assurance publication is not appropriate if it conflicts with a Recommendation that is applicable to the assurance engagement, unless there is a clear and compelling reason for departing from the Recommendation, as referred to in paragraph 5021.04. Other auditing and assurance publications listed in Appendix B are presumed to be appropriate.

## **APPENDIX A**

### **INTERPRETIVE PUBLICATIONS**

This listing identifies interpretive publications, as defined in paragraph 5021.02(c), issued under the authority of the AASB as of September 2005:

1. All Assurance and Related Services Guidelines issued by the AASB.

## **APPENDIX B**

### **OTHER AUDITING AND ASSURANCE PUBLICATIONS**

This listing identifies other auditing and assurance publications, as defined in paragraph 5021.02(d), published by the CICA as of April 2007 that have been reviewed by CICA Auditing and Assurance Standards staff and are therefore presumed to be appropriate:

#### **Risk Alert**

- Implementing audit risk and quality control standards, May 2007
- Auditor involvement with management's internal control certifications, January 2007
- Responding to the special needs of regulators or funding bodies, March 2006

#### **Practice Advice**

- Annual bulletin, November 2007
- Annual bulletin, October 2006