

Strategic Plan

Strategic Plan

Auditing and Assurance Standards Board

AASB

Abbreviations

AASOC	Auditing and Assurance Standards Oversight Council
AcSB	Accounting Standards Board
AICPA	American Institute of Certified Public Accountants
AASB	Auditing and Assurance Standards Board (also referred to as “the Board”)
CAG	Consultative Advisory Group to the IAASB
CCAF	Canadian Comprehensive Auditing Foundation
CCOLA	Canadian Council of Legislative Auditors
CICA	Canadian Institute of Chartered Accountants
CPAB	Canadian Public Accountability Board
CSA	Canadian Securities Administrators
EC	European Commission
EU	European Union
FASB	Financial Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IOSCO	International Organization of Securities Commissions
ISA	International Standard on Auditing
Ordre	Order of Chartered Accountants of Quebec
OSFI	Office of the Superintendent of Financial Institutions
PCAOB	Public Company Accounting Oversight Board
PICA	Provincial institute of chartered accountants
PIOB	International Public Interest Oversight Board
PSAB	Public Sector Accounting Board
SEC	Securities and Exchange Commission

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Message from the Chair

In November 2005 Canada's Auditing and Assurance Standards Board (AASB) issued an Invitation to Comment for "Auditing and Assurance Standards in Canada — Maintaining high standards in a global environment: A new standard-setting approach". The new approach would see Canada adopt International Auditing Standards (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) for the audit of financial statements. Our stakeholders provided overwhelming support for our proposals and responded with thoughtful and well-prepared comments. The accompanying strategic plan reflects this significant change, which the AASB believes is the best option for the future of standard setting in Canada.

We believe this plan meets the needs of the current environment and those of our diverse stakeholders, and that it will serve as an appropriate guide for our activities in the short to medium term. However, we recognize that the environment is volatile. As a result, the AASB will continue to monitor the environment throughout the plan period, assess the impact of changes and adapt its operations accordingly. In doing so, the AASB will also consider its progress in adopting ISAs and whether there are any issues that affect the new standard-setting approach.

We encourage our stakeholders to continue to provide comments to us on this plan and on our activities.

Richard Flageole,
February 2007

Introduction

The AASB has developed this strategic plan to provide a basis on which to set its future direction and allocate its resources to appropriate activities. The plan is designed to help the AASB respond to significant developments in the environment in which auditing, assurance and related services are performed and in which standards for such services are set. As such, the plan serves as a guide for the activities of the Board over the next three years. However, the Board will continue to monitor the environment and will modify the plan when environmental developments necessitate an adjustment in direction. The Board's ongoing processes require an update of this plan within three years.

This strategic plan is presented in three sections:

Strategic planning framework — sets out the AASB's vision, mission, oversight of the AASB and stakeholders.

Long-term goals — sets out the AASB's long-term goals in meeting its mission and vision.

Objectives and related strategies — sets out the AASB's objectives to enable it to achieve its long-term goals. Also provided are related strategies for the AASB to meet those objectives.

The strategic plan is posted on the AASB web site at www.aasb.ca. It will be supplemented by annual operating and communication plans that will provide short-term action steps to enable the AASB to meet its objectives. Summaries of these plans will also be posted on the AASB web site.

Strategic planning framework

The AASB's strategic planning framework includes its vision and mission, oversight of the AASB and identification of its key stakeholders.

Vision statement

The AASB envisions an environment where:

- (a) decision makers in all sectors of society have the information they need to assess and to improve organizational performance;**
- (b) the relevance, reliability and credibility of this information has been significantly enhanced by auditing and assurance services; and**
- (c) decision makers understand and value auditing and assurance services.**

Mission statement

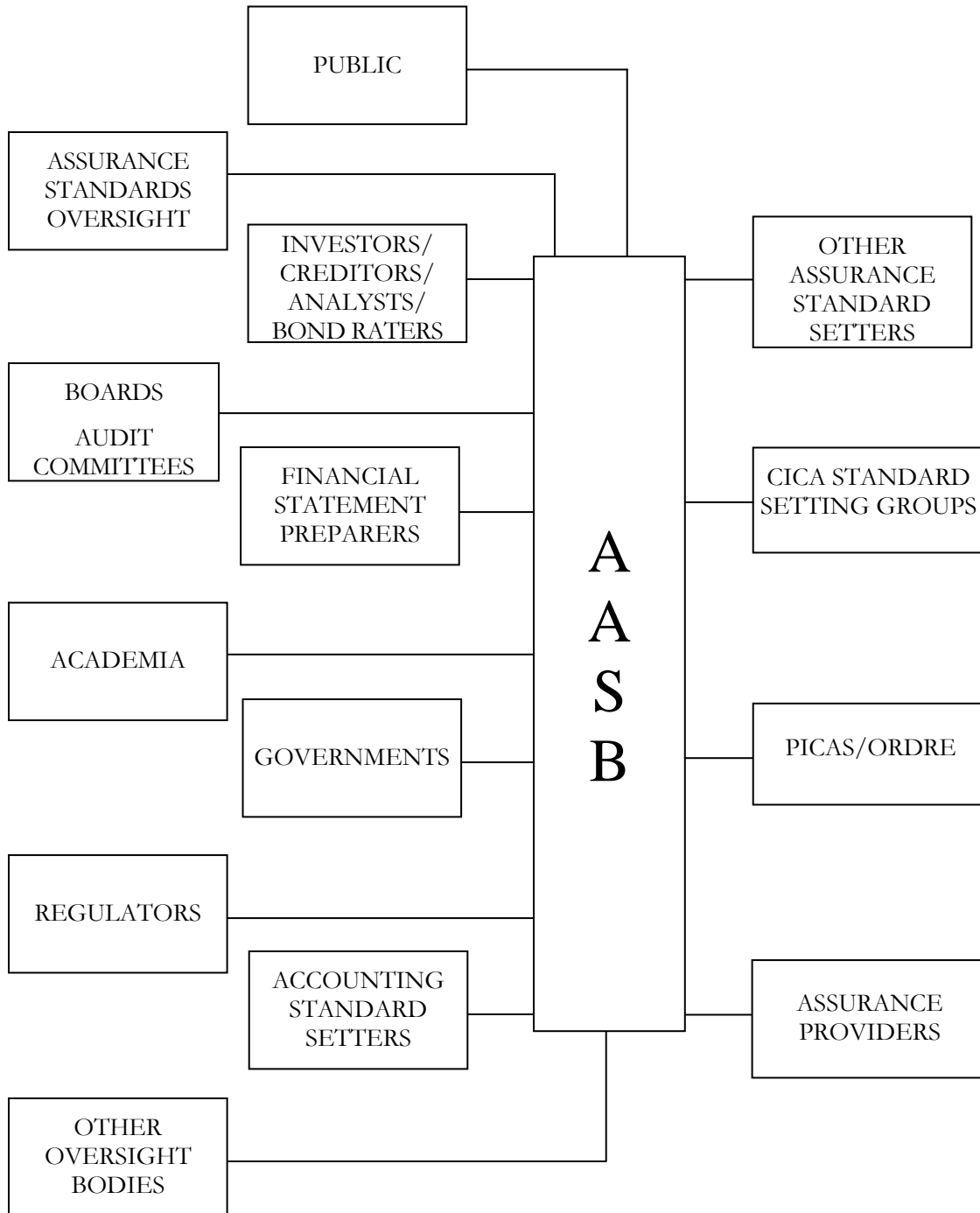
The mission of the AASB is to set high-quality standards and guidance that enable the public accounting profession to provide effective auditing, assurance and related services that serve the public interest.

Oversight of the AASB

In October 2002, the Canadian Institute of Chartered Accountants (CICA), the Canadian Securities Administrators (CSA) and the Office of the Superintendent of Financial Institutions (OSFI) acted jointly to establish an independent body to serve the public interest by overseeing the activities of the AASB. The Auditing and Assurance Standards Oversight Council (AASOC) supports the AASB by bringing a broad perspective to the complex issues that need to be considered in developing auditing and assurance standards in Canada. Members of the AASOC include senior representatives from public interest bodies (including the CSA, the OSFI, the Canadian Public Accountability Board (CPAB), and the International Public Interest Oversight Board (PIOB), as well as other prominent members of the community. Further details about the AASOC and its role and responsibilities may be found at http://www.aasoc.ca/index.cfm/ci_id/204/la_id/1.htm.

AASB stakeholders

The following graphic shows AASB stakeholders in the public and private sectors, defined as those who significantly affect, and/or are significantly affected by, AASB activities. Stakeholders are divided into two groups: those inside the auditing and assurance profession and those outside.



Long-term goals

The AASB's mission reflects the fact that the AASB contributes to enhancing the quality of auditing, assurance and related services. However, auditing and assurance standards are only one of a number of factors that affect the quality of service a practitioner provides. Other factors include:

- professional development and training;
- personal experience and competence;
- an accounting firm's quality control procedures; and
- effectiveness of practice inspections.

Accordingly, achieving the AASB's mission is subject to contributing factors outside the Board's control. This strategic plan focuses on goals, objectives and strategies that are within the AASB's control and contribute to achieving the Board's mission.

In its 2005 Invitation to Comment, which can be found at www.aasb.ca, the AASB reviewed how the environment had changed since its 2003 review to determine how best to meet its vision and mission in the future. The results of this review are detailed in Appendix 1.

The AASB concluded that it needs to adopt a new approach to ensure:

- Canada continues to play a leading role in developing high-quality global auditing standards that meet the needs of Canadian stakeholders; and
- stakeholders continue to have confidence in the AASB's standard-setting process.

In its Invitation to Comment, the AASB indicated that the adoption of ISAs is the best option for the future of standard setting in Canada, for the following reasons:

- The IAASB's Conceptual Framework and standard-setting philosophy is closely aligned with the AASB's.
- ISAs are increasingly being accepted as global auditing standards (over 70 countries use ISAs as a basis for national auditing engagements) because of the rigour of the IAASB's due process and the quality of the standards it produces.
- The IAASB is embarking on a major project to clarify and restructure its standards, aimed at producing higher-quality audits.
- ISAs reflect the needs of a broad range of stakeholders, including practitioners from smaller firms and the public sector.
- The AASB has a strong reputation as a producer of high-quality auditing and assurance standards, which means that its views are well respected at the IAASB thereby enabling the AASB to play a valuable role in the development of ISAs.

- It will give the AASB the opportunity to consider ways to enhance the interpretive guidance¹ materials it provides to practitioners.

Canadian stakeholders, through roundtable discussions and written comment, indicated overwhelming support for the Board's proposed approach. Accordingly, this strategic plan reflects the new standard-setting approach.

The remainder of this section sets out the Board's long-term goals. Although the focus of the Invitation to Comment was the adoption of ISAs, the AASB indicated that it will also seek to adopt the IAASB standards dealing with other assurance engagements, and develop specific Canadian auditing and assurance standards and guidance to respond to new legislation, regulation or other unique aspects of the Canadian environment that are not being addressed through the ISAs. In addition, the AASB issues standards dealing with related services engagements other than assurance engagements, such as compilation engagements. The AASB intends to continue to set standards for related services engagements. In the rest of this strategic plan, it has been assumed that "auditing and assurance standards" also includes related services engagements where appropriate.

Set high-quality auditing and assurance standards that enable the profession to serve the public interest

The AASB's overriding goal is to set high-quality auditing and assurance standards and guidance for the private and public sectors that meet the needs of its stakeholders. Most legislation governing business incorporation in Canada recognizes the CICA Handbook – Assurance as the primary source of generally accepted auditing standards in Canada (Canadian GAAS). Legislators, regulators and investors must therefore have confidence that the standards in the Handbook are of high quality. To be of high quality, auditing and assurance standards must meet the needs of those who provide and rely on audit and broad assurance services in:

- both the public and private sectors;
- international markets;
- Canadian markets (both privately and publicly held entities); and
- smaller, local and regional markets.

The AASB believes that a strong auditing- and assurance-provider community will serve the public interest and understands that a wide range of auditing and assurance providers use the standards in the Handbook. Standards need to be easily interpreted and applied if they are to meet the needs of the provider community.

¹ "Interpretive guidance" refers to materials developed under the authority of the AASB and includes such things as Assurance and Related Services Guidelines and other publications defined as "interpretive publications" in Section 5021, *Authority of Assurance Standards and Other Guidance*, of the Handbook. Such guidance is in contrast with "implementation guidance", which is not developed under the authority of the AASB and includes such things as detailed work programs, practice aids, audit manuals, diagnostic tools and other training aids.

The AASB intends to set standards in two main ways:

1. by adopting ISAs issued by the IAASB for the audit of financial statements; and
2. by undertaking projects that are not on the IAASB agenda but are seen as necessary to develop auditing and assurance standards to meet the specific needs of the Canadian environment.

In adopting ISAs, the Board's role will be to perform "due diligence" on the ISAs considered for adoption in Canada. The AASB will do this by:

- acting as a centre for auditing and assurance thought and practice in Canada that can be brought to bear in the analysis and consideration of ISAs for adoption in Canada;
- monitoring the Canadian environment to identify the needs of Canadian stakeholders and considering whether proposed ISAs meet those needs;
- providing prompt input to the IAASB on Canadian needs so that the IAASB can take these into account as it develops proposed ISAs;
- seeking comment from Canadian stakeholders on the IAASB's exposure drafts, and carefully considering the responses received, and developing comment letters setting out the views of the AASB for the IAASB's consideration;
- monitoring and reviewing how and to what extent the IAASB reflects comments received from Canadian stakeholders in final ISAs;
- analyzing input received and employing clearly defined criteria to identify whether modifications to ISAs are required to meet Canadian needs; and
- employing an appropriate voting process for approval of ISAs (modified as necessary) as Canadian auditing and assurance standards.

Support and participate in the development of high-quality global auditing and assurance standards

The globalization of financial markets in recent years has created a need for common worldwide standards in many areas of business and government — from accounting and auditing to regulation of securities markets and corporate governance. For standard setters today, convergence is a market-driven imperative — and the AASB's new standard-setting approach reflects its belief that Canada needs to make a concerted effort towards convergence with international auditing and assurance standards.

The AASB believes that the IAASB's standards will ultimately be the high-quality auditing and assurance standards used throughout the world in the public and private sectors. The AASB's goal is first to adopt the ISAs (which are the IAASB's standards for audits of financial statements) and then adopt the IAASB's other assurance standards.

The consequences of this new standard-setting approach include:

- The Handbook will ultimately take on the IAASB format and structure.
- Canadian GAAS will eventually become equivalent to ISAs.
- Canadian GAAS will continue to consist of only one set of generally accepted auditing standards for the audits of all sizes and types of entities.

- The AASB will continue to develop its own standards to address areas not addressed by the IAASB, when warranted.
- Processes for developing auditing and related standards will change to strengthen Canadian stakeholder input to the IAASB.

Maintain a strong Canadian auditing and assurance standard-setting capability to ensure public confidence in the assurance process

To maintain the confidence of its stakeholders, including regulators and the general public, in the services rendered by assurance providers in Canada, the AASB needs to ensure high-quality Canadian standards. The Board also needs to play a strong role in the move to develop high-quality global auditing and assurance standards. To do this, the AASB believes it must maintain a strong Canadian auditing and assurance standard-setting capability. This goal will be accomplished by employing due processes that ensure standards are set to assist the profession in serving the public interest and maintaining the appropriate resources to meet its objectives. The public oversight of the AASB's activities also facilitates achieving this goal.

The IAASB follows a transparent standard-setting process. The AASB believes, therefore, that Canadian stakeholders will have ample opportunities to take part in the international standard-setting process and also in the development of Canadian standards based on ISAs. The AASB believes that the resulting due process for the adoption of ISAs will be transparent.

Until now, when the IAASB's exposure drafts have been issued, the AASB has sought comments from Canadian stakeholders to be passed to the IAASB. This has been separate and distinct from the AASB's due process for developing Canadian auditing standards. In the future, however, the AASB will issue the IAASB's exposure drafts as proposed Canadian standards. Such Canadian exposure drafts will contain the proposed ISA *verbatim*, together with a limited number of Canadian modifications (Appendix 2 sets out criteria for such modifications). Modifications may be necessary, for example, to reflect the Canadian legal or regulatory environment, or for consistency with Canadian accounting standards. Using the feedback from this exposure process, the AASB will provide input to, and exert influence on, the IAASB.

Objectives and related strategies

To achieve its goals, the AASB has developed the following objectives. Supporting these objectives are more detailed strategies. The Board has developed performance measures for the three-year period covered by the plan. The Board recognizes that many of the measures are not particularly precise but believes that as it gains experience it will be able to improve their precision.

Set Canadian auditing and assurance standards for the public and private sectors that meet the needs of the AASB's stakeholders for high-quality standards in the public interest

Strategies

- The AASB will expose proposed ISAs in Canada with a view to adopting them as Canadian standards amended only as necessary in accordance with the criteria as set out in Appendix 2.
- The AASB will monitor the Canadian environment, including regulatory developments affecting publicly held entities and, where necessary, develop specific Canadian auditing and assurance standards and guidance to respond to new legislation, regulation or other unique aspects of the Canadian environment that are not being addressed through the ISAs.
- The AASB will establish close liaison with the CCOLA to monitor developments in public sector auditing, including the need for auditing and assurance standards on a broader range of performance information.
- The AASB will provide active input to the development of Canadian and international accounting standards that affect auditing and assurance standards.
- The AASB will consider the need for appropriate interpretive guidance materials and support the development of implementation guidance by others for application of ISAs in a Canadian context.

Performance measures

1. Increase the percentage of Canadian auditing standards that are adopted ISAs.
2. Meet the AASB's work plan targets for specific Canadian auditing and assurance standards and guidance responsive to new legislation, regulation or other unique aspects of the Canadian environment that are not being addressed through the ISAs.
3. Achieve appropriate satisfaction ratings in surveys of stakeholders regarding the AASB's efforts to improve the quality of auditing and assurance standards and related guidance.

4. Make appropriate responses to exposed materials relating to the development of Canadian and international accounting standards that are likely to have a significant effect on auditing and assurance standards.

Provide support to the IAASB as it develops its auditing and assurance standards while working proactively to ensure that such standards are appropriate for the Canadian public interest

Strategies

- The AASB will promote due consideration by the IAASB of the needs of auditors of public and non-public entities, in the public and private sectors and in large and small firms.
- The AASB will work with others to identify opportunities for the AASB to provide resources for projects with the objective of developing high-quality international auditing and assurance standards.
- The AASB will exchange views with, and provide technical support to, IAASB members from Canada about the IAASB's projects and their implications in the Canadian context.
- The AASB will provide technical input on the IAASB's agenda materials using an amended process that considers comments received from Canadian stakeholders on Canadian exposure drafts of proposed ISAs in the AASB's responses to the IAASB.
- The AASB will communicate its objectives and related due processes to, and seek the support of, Canadian stakeholders.

Performance measures

1. Make appropriate responses to the IAASB exposure drafts within the deadlines set by the IAASB.
2. Achieve appropriate satisfaction ratings in feedback from Canada's representative on the IAASB on the quality of input provided by the AASB.
3. Achieve appropriate satisfaction ratings in feedback from the IAASB Chair or other knowledgeable persons on the quality of input provided by the AASB on the IAASB's exposure drafts and other matters on which the IAASB has asked for input from national standard setters.

Follow a due process that is understandable, allows for two-way communications with stakeholders, is flexible to meet the needs of stakeholders in a changing environment, is sensitive to stakeholders' ability to implement new standards and is efficient

Strategies

- The AASB will work with the AASOC to identify and address issues affecting Canada's auditing and assurance standard-setting capability.
- The AASB will continue to review its processes for developing standards to assess whether they are efficient and appropriately transparent.
- The AASB will perform self-assessments of its own performance and will work with the AASOC to address any performance issues.
- The AASB will communicate with stakeholders about the AASB's project priorities, the status of its projects, meeting agendas and decisions.
- The AASB will communicate with stakeholders to understand their developing needs and views on project priorities, as well as their levels of satisfaction with auditing and assurance standards.
- The AASB will, when developing its annual operating and communications plans, increase two-way communications with stakeholders and identify the appropriate level of resources required to enable the AASB to successfully meet its objectives.
- The AASB will maintain and enhance links with others, including provincial Institutes/Ordre and CICA groups, to promote understanding and acceptance of new auditing and assurance standards and to ensure appropriate implementation guidance is provided to stakeholders.

Performance measures

1. Meet the AASB's work-plan commitments.
2. Meet the AASB's targets for issuance of timely, informative communications as set out in the AASB's communications plan.
3. Achieve appropriate satisfaction ratings in surveys of stakeholders regarding the due process for setting auditing and assurance standards.

Appendix 1: Environment

International Standard Setting

The quality of ISAs has continued to improve, partly because of a strong, transparent due process. With the formation of the PIOB in the spring of 2005, the IAASB is now under public oversight. The IAASB has devoted substantial effort building and strengthening relationships with its stakeholders, including global regulators, international and regional organizations, IFAC member bodies and national standard setters. As a result, it seems more appropriate than ever for the AASB to actively pursue adoption of ISAs.

When the AASB developed its last strategic plan in 2003, the IAASB had just begun implementing a program designed to strengthen its processes and broaden its membership with a view to meeting the needs of regulators and other external observers for efficiency, transparency and credibility. Since then, the IAASB has undertaken significant initiatives to respond to the “Proposals for Reform” that the IFAC approved in November 2003 and are supported by regulators worldwide. The aim of these reforms was to increase public confidence in the IFAC’s public interest activities, including the IAASB’s standard setting. The reforms included the following:

- The appointment of an independent Consultative Advisory Group (CAG) to strengthen the IAASB’s due process and to further the public interest in the IAASB’s standard-setting activities.
- The appointment of a full-time Chair on October 1, 2004.
- All members of the IAASB have for the first time signed a declaration, to be repeated annually, that they will act with integrity and in the public interest in the discharge of their responsibilities. The aim of this declaration is to strengthen the acknowledgment by IAASB members to act in the best interests of the public.
- To enhance the avenues for direct input into the IAASB’s standard-setting process, invitations for observer seats to the IAASB were sent to and accepted by the PCAOB, the European Commission and the Japanese Financial Services Agency. In addition, the chairman of the IAASB CAG has accepted a fourth observer seat. These observer seats carry speaking, but not voting, rights.
- In 2005, the IAASB made enhancements to its due process and working procedures to make its activities more transparent.
- The IFAC reforms also called for the development and formalization of the present liaison arrangements between the IAASB and national standard setters.

While implementing the reforms, the IAASB has also focused on its primary objective — the development of robust and high-quality auditing standards. One project with significant and far-reaching consequences is the Clarity Project. The IAASB is undertaking this project to make improvements to the clarity of its standards that comprise:

- setting an objective for the professional accountant with respect to each standard;

- using revised language to clarify the obligations imposed on professional accountants by the requirements of the standards;
- eliminating any ambiguity about whether the use of the present tense in current standards imposed any obligation on the professional accountant; and
- making the standards more comprehensible through structural and drafting improvements, including clarifying the application material in the standards.

Taking into account all the advice given to it, the IAASB has agreed on new drafting conventions for its standards and an aggressive timetable to redraft as many standards as practicable in the shortest possible time, without compromising due process. The IAASB is focusing initially on its auditing standards (ISAs), as opposed to the other international standards, reflecting the public interest in audits.

Another major IAASB focus has been on achieving global convergence to its standards. The challenges of convergence to international standards were clearly highlighted in the report commissioned by the IFAC and issued in September 2004, "Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs" (see <http://www.ifac.org/convergencereport>), written by former IFAC board member Peter Wong.

Recognizing the importance of small- and medium-sized practices (SMPs), the IAASB solicits the input and support of the IFAC SMP Committee at all key stages of each of its projects, beginning with the project proposal. This reflects the need for the IAASB to give appropriate consideration to SMP issues and to understand the views of SMPs so that the IAASB's pronouncements are relevant and applicable to them.

To facilitate the IAASB's partnership with SMPs, the IAASB has appointed its Deputy Chair to act as liaison with the SMP Committee.

Regulators:

European Commission²

This is a significant time of change for auditing regulation in Europe. In this respect, the European Union's (EU's) recent finalization of the revised Eighth Company Law Directive is a significant and welcome development for the IAASB. The revised Directive became effective in June 2006, when translation into the official languages of the EU was completed. EU Member States have two years to implement the Directive. The Directive specifies that international standards on auditing will be used for all audits in all Member States, and the EC has indicated that it is considering the endorsement of ISAs as those international standards. No target date has been set but the EC has begun discussing the possibility of adoption of the Standards with oversight authorities. The IAASB continues to monitor progress on the mechanism and timetable for the EC's endorsement of ISAs.

The EC has accepted the IAASB's invitation to send an observer, with speaking rights, to IAASB meetings.

International Organization of Securities Commissions

IAASB representatives attend meetings of the IOSCO's Standing Committee No. 1 and the Auditing Subcommittee. The IOSCO has commented regularly on the IAASB's exposure drafts, and the IOSCO representatives have attended most of the public meetings of the IAASB. The IOSCO participates in the IAASB CAG and is involved in the development of the IFAC reforms.

The IAASB continues to explore with the IOSCO the ways in which the IOSCO might eventually endorse the IAASB's standards for use in all capital markets regulated by IOSCO members.

US Public Company Accounting Oversight Board

Recognizing the PCAOB's unique role in setting auditing standards for the US capital markets, the IAASB established working relationships with the PCAOB to foster better understanding of each other's activities and further the goal of global convergence of standards.

The PCAOB has observer status at IAASB meetings. Through this channel, the PCAOB professional standards staff has contributed to the IAASB's deliberations on significant projects. In the observer role to the IAASB, PCAOB staff also attends meetings of the IAASB CAG.

² The European Union is the world's largest confederation of independent states. The European Commission is the executive body of the European Union whose primary roles are to propose and implement legislation and to act as guardian for the treaties which provide the legal basis for the European Union.

Conversely, the IAASB has accepted an invitation to participate as an observer at meetings of the PCAOB's Standing Advisory Group (SAG). The IAASB Chair attends meetings of the SAG and participates in the discussions addressing PCAOB projects.

Standard Setters:

National Standard Setters

Standard setters from 11 countries, including Canada and the US (both the PCAOB and the AICPA's Auditing Standards Board), attend an annual meeting of national standard setters. These meetings include discussions on how to improve coordination of work agendas between the IAASB and national standard setters, issues of international convergence, how the clarity of the IAASB's standards might be improved, the translation of ISAs and the development of implementation guidance.

International Organization of Supreme Audit Institutions

The INTOSAI's goal is to develop Guidelines for Financial Audit that will provide its members with practical guidance on the application of the INTOSAI's auditing standards to financial audits of public sector entities. The INTOSAI has resolved that these Guidelines should, as far as possible, draw upon ISAs.

The IAASB has approved a final Memorandum of Understanding (MoU) with the INTOSAI that formalizes a project structure and cooperation process enabling the INTOSAI to use ISAs as a basis for its proposed Guidelines for Financial Audit. The MoU also provides for the INTOSAI to designate experts in the field of public sector auditing to work with the IAASB to facilitate the incorporation of public sector perspectives into the body of ISAs. INTOSAI nominees have been appointed to several IAASB task forces.

These co-operative efforts represent an important contribution to the development of standards that will be applicable in both the private and public sectors.

International Accounting Standards Board

The IAASB considers it important to maintain close liaison with the IASB given the range of common issues both face. The IASB already represents an important element in the IAASB's due process through its participation on the IAASB's CAG. In addition, closer liaison between the IAASB and the IASB was initiated in 2004 through meetings between the chairs of the respective Boards to discuss common issues and projects of mutual relevance.

The state of international convergence

A significant number of jurisdictions have been engaged in a process of international harmonization or convergence in auditing standards. ISAs are currently used as the basis for national auditing engagement standards in more than 70 countries, such as European countries including the United Kingdom and Germany, Australia, New Zealand and South Africa.

As previously stated, the EC is considering a process and timetable for endorsement of ISAs for use throughout the EU in the future.

The Statements of Membership Obligations issued by the IFAC Board provide clear benchmarks for IFAC member organizations. These Statements also spell out members' obligations, including their efforts at international convergence.

US standard-setting developments

The US standard-setting scene has changed dramatically since 2003, with the division of standard-setting responsibilities among different bodies being one of the most significant developments.

Public Company Accounting Oversight Board

The PCAOB was formed in July 2002 to oversee the auditors of public companies in the US. The PCAOB has powers to establish standards for auditing, attestation, quality control, ethics and independence for registered accounting firms. The PCAOB relies on the advice of a Standing Advisory Group to assist in performing its standard-setting responsibilities.

On April 16, 2003, the PCAOB adopted certain existing standards as its interim auditing standards. Most of these standards were promulgated by the AICPA and pre-date the PCAOB's formation. These interim standards are incorporated into the PCAOB's rules. Registered public accounting firms must comply with both interim standards, while they are in effect, and the permanent standards adopted by the PCAOB.

In May 2004, the SEC approved the PCAOB's proposed standard requiring registered public accounting firms to include in their reports on the financial statements of public companies a statement that the engagement was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)." The standard supersedes previous standards that required references to "generally accepted auditing standards."

In June 2004, the SEC approved the PCAOB's proposed standard for auditors' attestation to management's assessment of internal control over financial reporting.

In August 2004, the SEC approved the PCAOB's proposed standard for audit documentation. The PCAOB considers this standard to be one of the fundamental building blocks on which both the integrity of audits and the PCAOB's oversight will rest.

In February 2006, the SEC approved the PCAOB's proposed standard for an auditor to report on whether a previously reported material weakness in internal control over financial reporting continues to exist as of a date specified by management.

The PCAOB is an observer, with speaking rights, at IAASB meetings. Similarly, the PCAOB invited the IAASB to participate as observers in the Standing Advisory Group.

Although not an explicit objective, the PCAOB supports the development of high-quality international professional standards.

Further details about the PCAOB may be found at <http://www.pcaobus.org>.

American Institute of Certified Public Accountants

Prior to the formation of the PCAOB, AICPA members who performed audits were required to comply with Statements on Auditing Standards promulgated by the AICPA's Auditing Standards Board (ASB). These standards constitute what is known as generally accepted auditing standards in the US and, in the past, applied to all audits. Now, however, the auditing and related professional practice standards established by the PCAOB are to be used in the performance of, and reporting on, audits of public companies. Accordingly, AICPA members must now comply with PCAOB standards when auditing public issuers and with ASB standards when auditing non-public companies.

With the formation of the PCAOB, the ASB changed its focus to:

- developing auditing, attestation and quality control standards for nonpublic engagements;
- contributing to the development of high-quality national and international auditing and assurance standards;
- meeting the needs of financial statement users;
- fostering public trust in the profession; and
- developing timely practical guidance on implementing the standards.

The ASB has adopted a strategy of convergence of its standard-setting process and body of knowledge with the international standard-setting process and ISAs, while still retaining the ability and flexibility to develop auditing, attestation, and quality control standards that serve US auditors of non-issuers and inspire public trust. To do so, the ASB is aligning its standard-setting process with that of the IAASB.

Canadian environment

The Canadian environment has also seen significant changes since 2003, with the creation of the Canadian Public Accountability Board, the Accounting Standards Board's (AcSB) proposed change of strategic direction and the Canadian Securities Administrators permission for certain issuers to use US accounting and auditing standards, and standards overload issues. As a result, the AASB also needs to consider its standard-setting approach.

Canadian Public Accountability Board

In 2003, the provincial securities commissions, the Office of the Superintendent of Financial Institutions and the CICA created the CPAB to provide independent public oversight for auditors of issuers reporting to the securities commissions. The Canadian

Securities Administrators (CSA) National Instrument 52-108 requires that financial statements of reporting issuers be audited by public accounting firms registered with the CPAB oversight program. The CPAB has contractual agreements with participating audit firms to take any actions necessary to carry out its role. The CPAB's actions to promote high-quality external audits of reporting issuers include:

- establishing and maintaining requirements for participation in the CPAB's oversight program, and publishing on its website a register of participating audit firms;
- conducting inspections of participating audit firms directly or in co-operation with professional regulatory authorities to assess the compliance of each firm with the CPAB Rules, professional standards and the firms' own quality control policies, and requiring firms to take remedial action to address inspection findings when necessary or appropriate;
- conducting investigations of, and imposing requirements, restrictions and sanctions on, participating audit firms when necessary or appropriate;
- providing comments and recommendations on accounting and assurance standards to relevant standard-setting and professional-oversight bodies; and
- reporting to the public at least annually on the results of its activities.

The CPAB developed a co-operative working relationship with the PCAOB, leading in early 2005 to a documented understanding of how the two organizations will work together to ensure the oversight of firms auditing public companies in both countries without duplicate effort. Nearly 500 Canadian companies are registered with the SEC in the US. Also, about 200 foreign firms registered in Canada are audited by US and other foreign accounting firms.

Unlike the PCAOB, the CPAB does not set auditing standards in Canada. The CPAB is, however, represented on AASOC and the Accounting Standards Oversight Council, the independent body established to oversee the AcSB. The CPAB has a particular interest in ensuring that Canada has world-class standards for auditing and for auditor independence. Both Canadian and international auditing standards are undergoing major revision, in part as a response to the audit failures of recent years. Audits are becoming more rigorous and more sophisticated.

The CPAB comments on each auditing exposure draft issued by the AASB, highlighting situations where it believes, based on the results of its inspections, current Canadian standards need to be improved. For example, the CPAB noted the need for improvement in standards for audit documentation and standards where an auditor of financial statements relies on another auditor to do part of the required work — for example, work on the client's operations in a foreign country. The AASB has now issued a new audit documentation standard and issued an exposure draft to address group audits.

Further details about the CPAB may be found at <http://www.cpab-ccrc.ca>.

Accounting Standards Board

The AcSB has embarked on a strategic planning process of its own. It issued a Discussion Paper in June 2004, "Accounting Standards in Canada: Future Directions," outlining various matters that should be considered in formulating the AcSB's strategic direction and policies. Responses to this Discussion Paper were taken into account in the Draft Strategic Plan the AcSB issued in May 2005. The final strategic plan was issued in March 2006. These documents can be found at <http://www.acsbcanada.org>.

This strategic plan outlines the broad policy objectives that will guide the Accounting Standards Board (AcSB) in carrying out its standard-setting mandate for the period 2006-2011. In summary, the AcSB has adopted the following strategic directions for financial reporting in Canada:

- The AcSB will pursue separate strategies for each of the major categories of reporting entities — publicly accountable enterprises, non-publicly accountable enterprises and not-for-profit organizations. The AcSB recognizes that "one size does not necessarily fit all"; it may not be possible to address the divergent needs of different categories of reporting entities properly within a single strategy. Each category deserves a strategy that specifically addresses the particular needs of the users of financial statements of entities in that category, even though the outcomes of some of the strategies may be the same or similar for all categories.
- For publicly accountable enterprises:
The AcSB will direct its efforts primarily to participating in the movement toward the global convergence of accounting standards. The AcSB has concluded, given the increasing globalization of capital markets and other recent developments, that it is timely for publicly accountable Canadian enterprises to adopt globally accepted, high-quality accounting standards by converging Canadian GAAP with International Financial Reporting Standards (IFRSs) over a transitional period. At the end of that period, a separate and distinct Canadian GAAP will cease to exist as a basis of financial reporting for publicly accountable enterprises.

The AcSB's general approach to achieving convergence will include:

- adopting standards newly developed by the International Accounting Standards Board (IASB) that are converged with standards issued by the US Financial Accounting Standards Board (FASB), as these new global standards are issued;
- replacing other Canadian standards with corresponding IFRSs already issued, in accordance with a separate convergence implementation plan to be developed in consultation with affected stakeholders;
- working with both the IASB and the FASB to ensure that the Canadian perspective is taken into account in their deliberations; and
- working to promote the further convergence of the IASB's and the FASB's standards.

In taking on a role in the development of global standards, the AcSB will cease to make final decisions on most matters affecting the technical content and timing of implementation of standards applied in Canada.

The AcSB's objective is to achieve convergence of Canadian GAAP with IFRSs at the changeover date at the end of the transitional period, which is expected to be approximately five years. The AcSB believes that by providing reasonable lead time and a clear transition plan, the costs and disruption to affected stakeholders will be minimized. As soon as possible, the AcSB will develop and publish a detailed implementation plan for effecting the changeover.

The AcSB will continually monitor events in Canada and internationally to determine whether there have been significant changes in any of the environmental factors that have influenced it in developing its global convergence strategy, with a view to making any necessary modifications in the program for implementing that strategy. This monitoring process will culminate in a progress review, approximately 24 months after the publication of this plan, at which point the AcSB expects to be in a position to set the definitive changeover date when Canadian GAAP for publicly accountable enterprises will be converged with IFRSs.

In applying its IFRS convergence strategy, the AcSB will work actively with the IASB and the FASB to eliminate the relatively few fundamental differences that remain between IFRSs and US GAAP and avoid the creation of new ones wherever possible.

- For non-publicly accountable enterprises:
The AcSB will undertake as a matter of urgency a comprehensive examination of the needs of the users of these enterprises' financial statements, and then determine and implement the most appropriate financial reporting model to meet those needs. This will require research to identify more clearly who the financial statement users are, what their information needs are and what reporting model or models might best satisfy those needs. In formulating this strategy, the AcSB has reached no conclusions on how financial reporting for this sector needs to differ from financial reporting for publicly accountable enterprises .

The research will take some time to complete, during which the current differential reporting model will remain in place. Existing differential reporting alternatives will be maintained, and any additional alternatives will be developed through the existing process with the advice of the AcSB's Differential Reporting Advisory Committee.

In carrying out its strategy for non-publicly accountable enterprises, the AcSB will consider the needs of those enterprises that do not have significant external users of their financial statements. Such enterprises may not need GAAP-basis financial statements, which are designed for entities that have significant external

users of financial information and require the application of a common basis of financial reporting.

Individual enterprises in this sector will have the option of applying the set of standards for publicly accountable enterprises when those standards better serve their needs.

- For not-for-profit organizations:
Not-for-profit organizations (NFPOs) will continue to apply those elements of GAAP for profit-oriented enterprises that are applicable also to the circumstances of NFPOs. The AcSB will consult with the not-for-profit sector to determine whether all NFPOs should base their accounting on the standards for publicly accountable enterprises, or whether the approach applied to non-publicly accountable enterprises should be applied also to some NFPOs.

The AcSB will continue its current practice of developing standards that deal with the special circumstances of NFPOs, and will focus more on addressing those circumstances.

- Canada will continue to maintain its own standard-setting capability to carry out the strategies outlined above, although the roles, structures, processes and resources will evolve to match those strategies.
- The AcSB will take into account the AASB's findings and conclusions that are relevant to the strategic directions adopted by the AcSB. The AcSB will also work with the AASB and the Public Sector Accounting Board (PSAB) in resolving financial reporting issues it has in common with either or both of those boards. In particular, the AcSB expects to work with the AASB to produce a reporting system that meets the needs of non-publicly accountable enterprises, and with the PSAB in connection with not-for-profit organizations in the public sector.

Public Sector Accounting Board

During 2003 and 2004, the Public Sector Accounting Board (PSAB) developed new strategic directions for public sector reporting in Canada. Some of the key outcomes sought are as follows:

- the CICA Public Sector Accounting (PSA) Handbook becomes a comprehensive body of high-quality, generally accepted accounting and financial reporting standards for the Canadian public sector;
- the public sector in Canada prepares its financial statements in accordance with the CICA PSA Handbook; and
- auditors report whether public sector financial statements are prepared in accordance with the CICA PSA Handbook.

Canadian Securities Administrators

In 2004, the Canadian Securities Administrators issued National Instrument 52-107, which sets out accounting principles and auditing standards for preparing and auditing financial statements in documents filed with Canadian securities regulators. The National Instrument can be found at <http://www.osc.gov.on.ca>. The following table summarizes the auditing standards permitted for the audit of financial statements:

	Canadian issuer	SEC issuer	Foreign issuers		
			SEC foreign issuer	Designated foreign issuer	Other foreign issuer
Canadian GAAS	X	X	X	X	X
US GAAS		X	X	X	X
International Standards on Auditing			X	X	X
Auditing standards accepted in the designated foreign jurisdiction				X	

Please refer to National Instrument 52-107 for definitions of terms used in the above table.

In March 2006, the CSA amended National Instrument 52-109 to include requirements for the CEO and CFO of a reporting issuer to certify in their annual certificates that they have evaluated the effectiveness of the issuer's internal control over financial reporting as of the end of the financial year and caused the issuer to disclose in its annual MD&A their conclusions about the effectiveness of internal control over financial reporting as of the end of the financial year based on such evaluation.

- The issuer will not be required to obtain from its auditor an internal control audit opinion concerning management's assessment of the effectiveness of internal control over financial reporting.
- These requirements will apply to all reporting issuers, other than investment funds, in all Canadian jurisdictions.
- These requirements will apply at the *earliest* to financial years ending on or after December 31, 2007.

Standards overload issues

The AcSB's Discussion Paper refers to the increase in the pace of change in accounting standard setting in recent years, including the increase in the length and complexity of standards issued not only by accounting bodies but also by securities regulators,

governments and others. The same is true of auditing standards. This trend is commonly described as “standards overload”.

The AASB cannot resolve standard overload issues by itself. Much like the AcSB, the AASB is attempting to communicate better with stakeholders about its new standards and to assist others in developing implementation guidance for practitioners affected. Recent examples of this are:

- its involvement in the development of the CICA’s *Quality Assurance Manual* in cooperation with practitioners from smaller firms and staff from provincial institutes;
- support for the development of an updated *Professional Engagement Manual* dealing with new audit risk standards; and
- sponsoring a revised Audit Technique Study on the audit of a small entity that includes, among other things, new guidance on dealing with the audit risk model as it applies to such audits.

Although the AASB’s role includes providing interpretive guidance to assist practitioners in applying its standards, it does not get involved in educational efforts designed to train auditors. While education is beyond the AASB’s mandate and resources, it recognizes that it must work with others who are responsible for educating practitioners.

Appendix 2: Criteria for modifications to ISAs

With respect to the adoption of International Standards on Auditing (ISAs), the AASB's overriding goal is to adopt ISAs into the Assurance Handbook as generally accepted auditing standards for audits of financial statements without modification. However, there may be circumstances where modifications are required. The following sets out the limited circumstances when the AASB will make modifications to ISAs:

1. The AASB will limit additions to an ISA to those required to comply with Canadian legal and regulatory requirements.³
2. The AASB will limit deletions from, or other amendments to, an ISA to the following:
 - (a) the elimination of options (alternatives) provided for in the ISA;
 - (b) requirements or guidance, the application of which Canadian law or regulation³ does not permit, or which require amendment to be consistent with law or regulation; and
 - (c) requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make modifications to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such modifications are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, modifications that are:
 - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
 - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed modifications to an ISA will be highlighted in exposure drafts of proposed Canadian standards. The AASB will indicate the reasoning for the modifications and respondents will be invited to comment on them, including when the modification will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Modifications to ISAs will be separately identified in the final Assurance Handbook material.

³ Most Canadian incorporating and other governing legislation requires entities to prepare financial statements in accordance with Canadian GAAP. Accordingly, if there are significant differences between Canadian GAAP and IFRSs that necessitate a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.