

Auditing and Assurance  
Standards Board



Conseil des normes  
d'audit et de certification

# AUDITING AND ASSURANCE STANDARDS BOARD

**ANNUAL REPORT**  
**Year Ended March 31, 2011**

# AUDITING AND ASSURANCE STANDARDS BOARD ANNUAL REPORT

Year ended March 31, 2011

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## LIST OF ABBREVIATIONS AND ACRONYMS

AASB	Auditing and Assurance Standards Board
AASOC	Auditing and Assurance Standards Oversight Council
AICPA	American Institute of Certified Public Accountants
CAS	Canadian Auditing Standard
CICA	Canadian Institute of Chartered Accountants
CSAE	Canadian Standard on Assurance Engagements
CSQC	Canadian Standard on Quality Control
GAAP	Generally Accepted Accounting Principles
IAASB	International Auditing and Assurance Standards Board
IAPS	International Auditing Practice Statement
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
ISAE	International Standard on Assurance Engagements
ISQC	International Standard on Quality Control
ISRE	International Standard on Review Engagements
ISRS	International Standard on Related Services
SSAE	Statement on Standards for Attestation Engagements

## The AASB's Role and Responsibilities

Investors, investment intermediaries, creditors, regulators, governments and the public in general need reliable information on which to base their decisions. The credibility of financial statements and other types of information is significantly enhanced when it is audited or reviewed by independent public accountants. In turn, the quality of the work performed by the public accountants is reflective of the strength and clarity of auditing and assurance standards on which this work is based. The primary role of the Auditing and Assurance Standards Board (AASB) is to develop such standards. These include Canadian Auditing Standards (CASs) for audits of financial statements and other historical financial information, as well as standards and related application and explanatory material for other types of assurance engagements (for example, review engagements and engagements to provide assurance on information other than financial statements). The AASB also develops standards for non-assurance services performed by public accountants including compilations and agreed-upon procedures engagements.

The responsibilities of the AASB include the following:

- developing and maintaining high-quality auditing, other assurance and related services standards, for both the private and public sectors, to respond to emerging needs of decision makers and assurance providers;
- ensuring that a rigorous due process is followed in developing auditing, other assurance and related services standards, including providing opportunities for input by all those affected by the standards;
- communicating effectively with those affected by, and interested in, auditing, other assurance and related services standards; and
- using its volunteer, staff and financial resources efficiently, effectively and economically.

The AASB is composed of 13 voting and three non-voting members. Members of the AASB are volunteers appointed by the Auditing and Assurance Standards Oversight Council (AASOC). Members on the AASB come from a wide variety of backgrounds, including large firms, small to mid-sized firms, sole practice, public sector, academia and industry, and from different regions across Canada. The AASB typically meets five times a year.

**AASB Members**  
as at March 31, 2011

**CHAIR**

**Bruce Winter, FCA**  
PricewaterhouseCoopers LLP  
Toronto

**VICE- CHAIR**

**Mark C. Davies, CA•CIA**  
KPMG LLP, Toronto

**MEMBERS**

**Carol Bellringer, FCA**  
Office of the Auditor General  
of Manitoba, Winnipeg

**Madeleine Lussier, FCA**  
Gatineau

**Martin Cloutier, CA**  
Mazars Harel Drouin  
Montréal

**Andrew Macartney, CA**  
Deloitte & Touche LLP  
Toronto

**Gordon D. Cummings, CA, CPA (IL)**  
D&H Group LLP  
Vancouver

**Cathy L. MacGregor, CA**  
Grant Thornton LLP  
Halifax

**Judy D. Ferguson, FCA**  
Office of the Provincial  
Auditor of Saskatchewan  
Regina

**Alan Reynolds, CIA, MBA**  
CIBC  
Toronto

**Darrell Jensen, CA**  
Ernst & Young LLP  
Toronto

**John Rossetti, CA, MBA**  
Office of the Auditor  
General of Canada  
Ottawa

**R. Travis Leppky, CA•CISA**  
BDO Canada LLP  
Winnipeg

**NON-VOTING MEMBERS**

**Phillip H. Cowperthwaite, FCA**  
Cowperthwaite Mehta

**Ron Salole**  
Vice-President , Standards  
CICA, Toronto

**Gregory P. Shields, CA**  
Director, Auditing and  
Assurance Standards  
CICA, Toronto

**AASB SECRETARY**

**Jan Burns**  
CICA, Toronto

## Message from the AASB Chair



I am pleased to report that during my first year as Chair, the Auditing and Assurance Standards Board (AASB) made significant progress in continuing to improve the quality of its standards. These standards are fundamental to enabling public accountants to contribute to the reliability of financial and non-financial information. The AASB's efforts continue in an environment where, in the aftermath of the global financial crisis, questions have been raised internationally regarding the role of auditors in promoting financial stability and whether significant improvements are needed in audit quality.

As expected, during the past year there was significantly less focus on revising standards for financial statement audits. Auditors need time to implement the initial set of 36 Canadian Auditing Standards (CASs) and Canadian Standard on Quality Control 1 (CSQC 1) adopted from the clarified International Standards on Auditing (ISAs) and International Standard on Quality Control 1 (ISQC 1) developed by the International Auditing and Assurance Standards Board (IAASB). There appears to be overall strong support for the clarified ISAs and ISQC 1, even in areas such as the European Union where other aspects of the auditing profession are being challenged. Also, the implementation of the ISAs and ISQC 1 will be monitored over the next few years by the IAASB with assistance from national standard setters including the AASB, to identify areas where continued improvements are needed.

This hiatus from a primary focus on CASs provided the AASB with an opportunity to pursue improvements to standards in other key areas. This involved undertaking projects that are linked to IAASB projects and also some projects specific to Canada.

The AASB took advantage of work being done internationally in updating Canadian standards for assurance engagements and developing or revising topic-specific standards such as a new assurance standard on audits of greenhouse gas emissions information and standards on reviews of financial statements. In undertaking its own projects on these topics, the AASB is closely monitoring all of the IAASB's deliberations and will decide, for each international standard, whether to adopt it in Canada with appropriate amendments, or to develop a made-in-Canada standard. Another important IAASB project relates to revising its standard on engagements to compile financial statements. The AASB has no project on this topic currently but has obtained significant input from Canadian stakeholders on the merits of undertaking a Canadian project. This input will assist the AASB in making an informed decision on whether to undertake a project to revise existing Canadian compilation standards. These projects remind us that standard setting reaches beyond capital markets to all sectors of the economy, including the public sector and small to mid-sized entities.

Regarding Canada-specific initiatives, the AASB's Securities Regulation Advisory Group has been very busy during the year, commencing projects to revise the 7000 series of Sections (i.e., those Sections in the CICA Handbook – Assurance dealing with securities regulations and other capital markets matters). Another example of important work started over the past year is a project to develop a new Related Services Standard on an auditor's communication to external parties (such as regulators) on matters of interest to those parties that have come to the attention of the auditor during the financial statement audit.

None of these standard-setting activities can be successful without timely and informative input from stakeholders. During the past year, the AASB started to be more proactive in supplementing traditional methods of obtaining input, such as exposure drafts. Examples of successful initiatives this year included a webinar on the proposed assurance standard on greenhouse gas statements and a series of roundtables across the country to seek input on matters relating to compilation engagements.

### **Looking forward**

In September 2010, the AASB approved its Strategic Plan for the period 2010-2013. This plan provides the framework for the AASB's activities in the near term. The AASB's efforts, summarized above, to improve various types of assurance standards will continue, with a number of new standards completed in the next couple of years. While activity related to CASs will be limited for the time being, projects to revise CASs on the use of the work of internal audit, and auditors' involvement with annual reports and similar types of information will continue. These and other projects will enable the AASB to complete, over the next four years, its development of a restructured Handbook that better reflects how public accountants use the standards in practice and that achieves appropriate consistency across all types of standards.

The AASB is very aware of global debates on matters related to the stability of capital markets, particularly those focusing on the role of the auditor. The IAASB is relying on the AASB and other national standard setters to support its efforts to help address these matters. For example, the IAASB is undertaking two major consultations. The first is focusing on what stakeholders want and need auditors to communicate in their reports. The second will focus on identifying the key factors that affect audit quality, to better enable future efforts on improving such quality. The AASB will consult Canadian stakeholders to obtain their input on these matters, all of which are important to the future of the public accounting profession and how it can best serve the public interest.

### **Closing remarks and acknowledgements**

As AASB Chair over the past year, I gained a deeper appreciation of the extraordinary energy, dedication and knowledge that members of the AASB, and its advisory groups and task forces, continue to bring to the standard-setting process. The terms of two highly valued AASB members, Travis Leppky and John Rossetti, came to an end this year and I sincerely thank them for their contributions to the AASB. In addition, I know the entire Board greatly appreciates the continuing efforts by Phil Cowperthwaite, the CICA nominee on the IAASB, to listen to Canadian viewpoints and be a strong and effective voice at the international table. I am also grateful for the effective oversight and useful input provided to the AASB by the Auditing and Assurance Standards Oversight Council (AASOC), under the leadership of David Brown. Finally, I would like to thank Ron Salole, Greg Shields and all of the AASB staff, as well as Jan Burns, for continuing to provide effective and efficient support to the AASB.

A handwritten signature in blue ink that reads "Bruce Winter". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

**Bruce Winter, FCA**  
**Chair**

**AUDITING AND ASSURANCE STANDARDS STAFF**  
as at March 31, 2011

**Vice-President, Standards**

**Ron Salole**

**Director, Auditing and Assurance Standards**

**Gregory P. Shields, CA**

**Principals**

**Svetlana Berger, CA, MAcc**  
**Juli-Ann Gorgi, CA**  
**Jacqui Kuypers, CA, MBA**  
**Chi Ho Ng, CA, CPA(IL), MBA**  
**P. Mary Olynik, CA**  
**Eric R. Turner, CA**

**Secretary, AASB**

**Jan Burns**

**Administration**

**Ritu Parhar**

## Summary of the AASB's Activities and Accomplishments

During the year, the AASB approved its Strategic Plan for the period 2010-2013, as a sound basis on which to carry out its mission: to serve the public interest by setting high-quality standards and guidance that enable the public accounting profession to provide effective auditing, other assurance and related services. The Strategic Plan includes two goals, eight objectives and related performance measures. Set out below is a summary of the progress made during the year by the AASB in accomplishing its goals.

### **Goal A**      **Set high-quality standards and guidance that meet the needs of Canadian stakeholders.**

#### **Canadian Auditing Standards (CASs)**

The first objective of the AASB is to set standards for audits of financial statements and other historical financial information (CASs) that are based on the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) with limited amendments made in accordance with rigorous criteria. Similarly, Canadian Standards on Quality Control (CSQCs), which apply not only to financial statement audits but to all assurance engagements, are adopted from the Internal Standards on Quality Control (ISQCs).

As planned, the level of activity in developing additional auditing standards diminished significantly this year to allow auditors time to implement the initial set of clarified auditing standards. The IAASB started its process to revise two ISAs, with the AASB meeting its performance target by keeping pace with the IAASB and following its due process for adopting these revised ISAs as revised CASs.

First, work is being done to revise ISA/CAS 610, *Using the Work of Internal Auditors*. A key matter being addressed by this project is the possible use of the entity's internal audit staff to provide direct assistance to the external auditor. This matter is not addressed in the existing standard. The IAASB is also proposing enhancements to the requirements in ISA 610 to establish a strengthened judgment-based framework for the external auditor in deciding whether, and if so, to what extent, to use the work of the internal audit function. In the summer of 2010, the IAASB issued an Exposure Draft of proposed changes to ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and ISA 610, *Using the Work of Internal Auditors*. The AASB issued an Exposure Draft of changes to CASs 315 and 610 shortly after the IAASB issued its Exposure Draft.

Second, work is being done to revise ISA/CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. When ISA 720 was being clarified, stakeholders identified a number of matters that need to be addressed to improve this standard. The IAASB is expected to issue an exposure draft of revisions to ISA 720 in mid 2011. The AASB will issue an exposure draft of revisions to CAS 720 shortly thereafter.

## **Standards for other assurance engagements and related services engagements**

Another objective of the AASB is to develop standards for other assurance engagements and related services engagements that are responsive to specifically identified needs of Canadian stakeholders.

The AASB sets its project priorities based on dialogue with stakeholders, monitoring of projects being undertaken by the IAASB and national standard setters, developments in the Canadian marketplace for assurance and related services, and other factors that point out a need to update or replace existing standards.

### ***Canadian projects with corresponding international projects***

During the year, the AASB met all of its performance targets for these standards projects. Three of these projects (review engagements, assurance engagements and assurance on a greenhouse gas statement) were started in prior years and deal with topics also being addressed by IAASB projects. The AASB kept pace with the IAASB in developing these standards on the premise that the AASB should not needlessly duplicate work being done internationally. While the AASB's preference is to take advantage of the IAASB's efforts, the AASB has not yet committed to adopting all international standards other than the ISAs and ISQCs and would seek input from Canadian stakeholders before doing so. The AASB's approach is to be proactive in monitoring the progress of the IAASB on all of its projects and to provide input for consideration by the CICA nominee on the IAASB regarding the key issues being deliberated. At an appropriate time (which varies with the nature of the project), the AASB decides whether to adopt all or parts of each international standard as a Canadian standard (with amendments, if needed); or develop made-in-Canada standards on the subject matter addressed by the international standard. Occasionally, the IAASB has a project on a topic that the AASB determines is not a high priority in Canada and, therefore, decides not to develop a corresponding standard in Canada. The following summarizes AASB's progress during the year on three projects for which there is a corresponding international project:

- Review Engagements — This project will revise or replace Section 8100, *General Review Standards*, Section 8200, *Public Accountant's Review of Financial Statements*, and Section 8500, *Reviews of Financial Information Other than Financial Statements*. In the fall of 2009, the AASB obtained input from stakeholders on how the existing review engagement standards are being used in practice and what improvements practitioners would like to see in those standards. The IAASB has undertaken its own project to revise International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*. The IAASB issued an Exposure Draft of proposed revised ISRE 2400 in January 2011. The AASB issued an Invitation to Comment on the IAASB Exposure Draft in February 2011.
- Assurance Engagements — This project will revise or replace Section 5025, *Standards for Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information*, Section 5030, *Quality Control Procedures for Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information*, Section

5049, *Use of Specialists in Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information*, and Section 5050, *Using the Work of Internal Audit in Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information*. The related IAASB project is to revise International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The IAASB issued an Exposure Draft of proposed revised ISAE 3000 in April 2011. The AASB expects to issue an invitation to comment on the IAASB Exposure Draft during the summer of 2011.

- Assurance on a Greenhouse Gas Statement — The AASB is developing a new Canadian Standard on Assurance Engagements (CSAE) to deal with assurance on a greenhouse gas statement. The IAASB is also developing a new ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, to deal with this subject. The IAASB issued an Exposure Draft of proposed ISAE 3410 in January 2011. The AASB issued an Exposure Draft of proposed CSAE 3410 in March 2011. The AASB also held an online roundtable to discuss these Exposure Drafts. Participants had an opportunity to provide direct feedback on the Exposure Drafts and ask questions of the experts.

The AASB is also monitoring two other IAASB projects. The first project involves revisions to International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*. A decision on whether to start a Canadian project to revise Section 9200, *Compilation Engagements*, will be made in the near term, taking into account input obtained from Canadian stakeholders. During the year, AASB staff held roundtables with practitioners across Canada to obtain their views on these standards. The second is the IAASB's project on a proposed new ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*.

The IAASB has also commenced a project related to its International Auditing Practice Statements (IAPSS). A key objective of this project is to clarify the status and authority of IAPSSs. The IAASB is also proposing the withdrawal of all existing IAPSSs since they are out of date and not entirely consistent with the clarified ISAs. In addition, a proposed new IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*, has been developed. An Exposure Draft on this material was issued in October 2010. The AASB is monitoring this project, as changes to IAPSSs may impact the AASB's Assurance and Related Services Guidelines. In particular, there are three Guidelines that are based on IAPSSs, including Assurance and Related Services Guideline AuG-19, *Audit of Financial Statements Affected by Environmental Matters*, AuG-32, *Electronic Commerce – Effect on the Audit of Financial Statements*, and AuG-39, *Auditing Derivative Financial Instruments*. The AASB will decide on the future status of these three guidelines, whether to adopt IAPS 1000 in Canada, and whether changes should be made to the status and authority of guidelines, when the outcomes of the IAASB's initiatives become clear.

In addition, the AASB finalized CSAE 3416, *Reporting on Controls at a Service Organization*. In response to input received from practitioners who perform this type of engagement, the AASB closely aligned CSAE 3416 with a new Statement on Standards for Attestation Engagements (SSAE) with the same name issued by the Auditing Standards Board of the American Institute of Certified Public Accountants

(AICPA). However, both the CSAE and the SSAE are largely based on ISAE 3402, *Assurance Reports on Controls at a Service Organization*, so all three standards are similar in most respects.

### ***Standards and guidance particular to Canada***

Regarding standards and guidance particular to Canada (i.e., there is no direct link to an international project), during the year, the AASB completed issued two new Assurance and Related Services Guidelines and started two major projects.

The AASB completed, on a timely basis, its development of new Assurance and Related Services Guideline AuG-46, *Communications with Law Firms under New Accounting and Auditing Standards*. The Guideline is intended to provide interim guidance to assist financial statement preparers, auditors and law firms to communicate when either financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) or the auditor is conducting an audit in accordance with the CASs.

The AASB also issued, on a timely basis, Assurance and Related Services Guideline AuG-47, *Dating the Review Engagement Report on Financial Statements*. The purpose of this Guideline is to assist the public accountant in applying the concept of “substantial completion” in dating the review engagement report.

The AASB, through the work of its Securities Regulation Advisory Group, also started its major multi-year project to revise the 7000 series of Sections (i.e., those Sections in the CICA Handbook – Assurance dealing with securities regulations and other capital markets matters). The Sections and Guideline to be revised include Section 7050, *Auditor Review of Interim Financial Statements*, Section 7110, *Auditor Involvement with Offering Documents of Public and Private Entities*, Section 7115, *Auditor Involvement with Offering Documents of Public and Private Entities — Current Legislative and Regulatory Requirements*, Section 7200, *Auditor Assistance to Underwriters and Others*, Section 7500, *Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents*, and Assurance and Related Services Guideline AuG-30, *The Auditor's Consent and Comfort in Connection with Securities Offering Documents*. In undertaking this project, the AASB will convert the standards to the clarity format (i.e., the format of the CASs) and consider what changes are needed to existing standards to ensure that public interest issues are appropriately addressed, taking into account changes in Canadian securities regulations and relevant developments by standard setters in other countries such as the US.

In addition, the AASB started a project to develop a new Related Services Standard dealing with how auditors can properly respond to requests to communicate matters of interest to an entity's external stakeholders regarding matters relevant to stakeholders that have come to the auditor's attention during a financial statement audit. There is an increasing demand by regulators and others for these types of communications and a significant number of auditors have noted a need for better guidance regarding such communications. In particular, guidance is needed to help ensure that the nature and limitations of such communications is made clear to users. This project was started later in the year than originally planned to ensure appropriate volunteer resources were available.

## Handbook structure

Another objective of the AASB is to continue improving the structure of the CICA Handbook – Assurance so that its form and content promotes consistency of the application of standards, reflects how the standards are used in practice and supports the future development of standards. The improved structure of the Handbook includes redrafting existing Sections in the clarity format.

Efforts made during the year regarding this objective included the following:

- Limited scope revisions were made to 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 to eliminate the concept of “substantial completion” used in dating practitioners’ reports so that these standards would be aligned with the CASs regarding report dating.
- Revisions were made to Assurance and Related Services Guideline AuG-10, *Legislative Requirements to Report on the Consistent Application of Generally Accepted Accounting Principles*, which was renamed and renumbered AuG-48, *Legislative Requirements to Report on the Consistent Application of Accounting Principles in the Applicable Financial Reporting Framework*. These revisions were made to correct outdated references to certain accounting and auditing standards, and update the Guideline so that it properly reflects the requirements in CAS 700, *Forming an Opinion and Reporting on the Financial Statements*, including, for example, the requirement that other reporting responsibilities, such as those referred to in this Guideline, be addressed in a separate section in the auditor’s report subtitled “Report on Other Legal and Regulatory Requirements.”
- A project was started to redraft, and revise if appropriate, in the clarity format Section 5800, *Special Reports — Introduction*, Section 5815, *Special Reports — Audit Reports on Compliance with Agreements, Statutes and Regulations*, and Section 8600, *Reviews of Compliance with Agreements and Regulations*.

## Implementation guidance

In addition to the development and adoption of standards, the AASB is committed to assisting in the development of implementation guidance that promotes the consistent and appropriate application of standards. The AASB approved a policy in January 2011 that will be used to help decide if and to what extent the AASB might assist in one or more standards implementation guidance initiatives.

Last year, the AASB set up three key groups to help with aspects of implementation of the CASs and other transition matters. The groups continued their respective efforts this year, producing high-quality and very useful guidance on aspects of how to apply the CASs in practice.

First, the Audit Reporting Implications of the New CASs Task Force continued to issue non-authoritative guidance, including example reports, to help address the numerous issues that auditors will face in implementing the new auditor's reporting model. This Task Force issued updated versions of the web-based non-authoritative guide, "Reporting Implications of New Auditing and Accounting Standards." The Guide is designed to promote consistency in the form and content of practitioners' reports by providing guidance with respect to commonly occurring circumstances that may arise because of the complexities relating to the changes to accounting and auditing standards. The Guide presents a series of issues in a question and answer format. It also presents a series of illustrative reports. These are designed to help practitioners understand and apply requirements and supporting guidance issued by the AASB related to reporting.

Second, the Assurance Implications of Changeover to IFRSs Task Force developed, and continued to update as needed, the web-based non-authoritative guide, "Assurance Implications of the Changeover to IFRSs." It deals with how auditors can address complex issues related to the transition from existing Canadian generally accepted accounting principles (GAAP) to IFRSs. This Guide also presents issues in a question and answer format designed to help auditors understand and apply requirements and supporting guidance issued by the AASB.

Both of the above-noted task forces worked co-operatively to address issues of common interest. Also, both groups received valuable input from the AASB's Securities Regulation Advisory Group.

Third, the AASB staff provided support to a joint task force of the CICA and the Canadian Institute of Actuaries in developing the non-authoritative web-based guide, "Audits of Financial Statements that Contain Amounts that Have Been Determined Using Actuarial Calculations." This Guide was issued in January 2011. It deals with issues encountered on audits where the financial statements prepared by management include amounts determined by, or with the assistance of, an actuary, including those audits when the auditor uses an actuary as an auditor's expert.

In addition, the AASB staff provided input to the development of various types of implementation guidance. For example, the CICA has established its Canadian Standards in Transition webpage that contains useful guidance on implementing the CASs. Examples of such guidance include: "The CICA's Guide to New CASs in Canada," an explanatory memorandum; "Reporting on Financial Statements under Canadian Auditing Standards," that helps stakeholders understand the decision-making process followed by the auditor when reporting on financial statements, and the form of the auditor's report, under CASs; and a 20-minute video, "New Canadian Auditing Standards."

The following webinars were also held during the year:

- Audit of a Micro-Entity — Make the New CASs Work for You and Your Client (October 2010)
- Communicating Successfully with Your Stakeholders About Changes to the Audit (September 2010)
- Opportunities to Improve Audit Quality in the Transition to CASs (May 2010)
- The New CASs: After a Busy Season — What Firms Should Do Now (May 2010)

**Goal B      Maintain a strong Canadian standard-setting capability to respond to the needs of Canadian stakeholders for standards.**

**Due process in developing standards and authoritative guidance**

A fundamental objective of the AASB is to ensure that it follows a due process that results in standards that are in the public interest. During the year, the AASB compared its due process to the IAASB's recently changed due process. The AASB concluded that the few differences between the processes related to the fact that, unlike the AASB, the IAASB operates internationally.

With input from Auditing and Assurance Standards Oversight Council, the AASB clarified and made limited changes to its due process, such as clarifying the circumstances when French translations are to be reviewed by French-speaking AASB members.

During the year, prior to issuing each new final pronouncement, the AASB obtained from AASOC confirmation that the AASB had followed due process in developing the new or revised standard or guideline.

**Keeping stakeholders informed**

The AASB's 2010-13 Strategic Plan also notes that an objective of the AASB is to ensure that stakeholders are kept informed and have sufficient opportunity to contribute to the standard-setting process.

While the AASB continues to rely on exposure drafts and invitations to comment to obtain stakeholder input, it is committed to developing other more robust means of obtaining input, as it recognizes that many stakeholders may not have the time to provide formal written responses on various matters. As noted earlier in this report, means such as face-face roundtables and webinars are being used more often to dialogue with stakeholders.

**Input to the IAASB**

Another key objective of the AASB is to maintain Canada's influence at the IAASB table. Again this year, the AASB provided timely and robust input to Mr. Phil Cowperthwaite, the CICA nominee on the IAASB. He attended all of the AASB meetings to become aware of the AASB's views on matters to be considered by the IAASB with the understanding that he would be expressing his own views at the international table. The AASB scheduled all of its meetings so that it meets shortly before each IAASB meeting. Also, each significant item on each IAASB agenda was included on the AASB meeting agenda.

Canada's voice at the international table remained strong because of the continued efforts of Mr. Cowperthwaite. He is a member of the IAASB Steering Committee, which advises the IAASB on matters of strategic and operational importance, and acts as counsel and advisor to the IAASB Chair and Technical Director on matters and activities relating to achievement of the objectives of the IAASB. Mr. Cowperthwaite also continued in his role as Chair of the IAASB's Task Force on Compilation

Engagements and Reviews of Historical Financial Statements and as a member of its Task Forces on Clarity ISA Implementation Monitoring and Audit Quality.

Greg Shields, CICA Director of Auditing and Assurance Standards, continued in his role as Technical Advisor to Mr. Cowperthwaite. Mr. Shields is also a member of the IAASB working group dealing with the status and authority of IAPs and a working group formed to draft IAASB responses to some of the proposed revised IFRSs.

The AASB also met its performance objectives of devoting significant staff resources to all international projects of relevance to Canada, responding on a timely basis to IAASB exposure drafts and invitations to comment. The AASB's participation in international initiatives also extends beyond specific standards projects. For example, the IAASB has undertaken initiatives to obtain stakeholder input on pervasive issues such as whether the form and content of the auditor's report should be significantly changed, and how the factors that contribute significantly to audit quality can be more clearly identified to provide a basis for effective efforts to continually improve the quality of audits. The AASB and its staff are providing input to the IAASB on these initiatives, including undertaking various forms of dialogue with Canadian stakeholders on these matters.

In addition, representatives from the AASB made significant contributions to the annual meeting between the IAASB and major national standard setters around the globe.

### **Promoting understanding and acceptance of new standards**

During the year, the AASB met its objective of keeping stakeholders up to date on key issues. Decision summaries of all AASB meetings were posted to the webpage soon after each meeting. In addition, the following materials were posted to the AASB webpage during the year:

- A *Risk Alert* was issued in August 2010, explaining key changes to Section 7050, *Auditor Review of Interim Financial Statements*, relating to circumstances when an auditor is required to request that his or her interim review report containing a reservation be included in any public document containing the interim financial statements.
- A *Practice Advice* was issued in October 2010, including articles on the review engagement project, proposed new guideline on dating the review engagement report and describing the financial reporting framework in the practitioner's report.

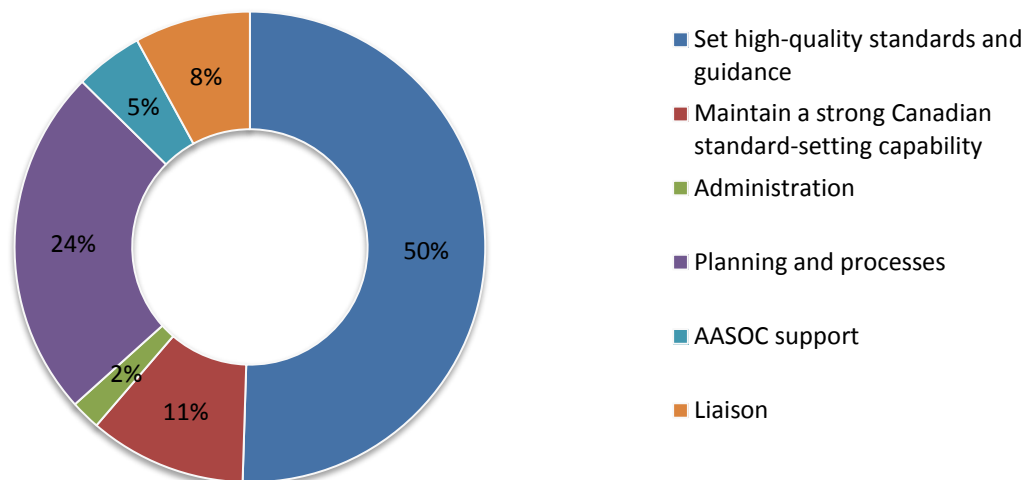
The CICA Standards Group communications staff also continued to issue email publications "Standards — Now You Know" to alert stakeholders to key developments in standards, including, for example, the issuance of exposure drafts.

During the year, the AASB committed to participate in the efforts of the IAASB to monitor the implementation of the clarified ISAs over the next three years, with a particular focus on auditors in small practice. For example, approximately a dozen Canadian auditors have agreed to participate in a survey under which they will provide information on key aspects of how the CASs have affected the

performance of audits, including identification of any areas with which they are struggling. This feedback will provide useful information on where future efforts to improve standards should focus.

## Use of the AASB's resources

### AASB Performance Activities 2010-2011



## Staff resources

The following table shows the comparative percentages of the AASB staff resources allocated to various types of activities, compared to last year. In order to provide a meaningful comparison, the prior year's percentages have been restated to reflect activities undertaken as they relate to the 2010-13 Strategic Plan. In some cases, allocation between categories is subjective, particularly in regard to allocating time spent between international projects and Canadian projects addressing the same topic.

Activity	2010-11 %	2009-10 %
Set high-quality standards and guidance		
Auditing standards	3	2
Other standards	30	38
Other, including Handbook structure and implementation guidance	17	10
	<u>50</u>	<u>50</u>
Maintain a strong Canadian standard-setting capability	11	12
Planning and processes	24	23
Liaison	8	9
AASOC support	5	4
Administration	2	2
	<u>100</u>	<u>100</u>

Allocation of staff resources was relatively consistent from last year to this year. Work continued on projects such as changes to the 7000 series of Sections and projects to either adopt international standards or develop Canadian standards for review engagements, assurance engagements and assurance engagements on greenhouse gas statements.

A number of conforming changes to standards in the Handbook were required as a result of the adoption of the CASs. The majority of this work was completed in 2009-2010. However, also included in this category is implementation guidance. Staff spent a considerable amount of time during 2010-2011 supporting the three key groups that were set up to help with aspects of implementation of the CASs and other transition matters (as described on page 13). Therefore, the time allocated to this category increased in 2010-2011.

### Financial resources

Costs	2010-11	2010-11	2009-10
	Actual	Budget	Actual
	\$ 000	\$ 000	\$000
Human resources	1,307	1,364	1,257
Meetings and travel	215	244	154
Translation	248	282	274
Occupancy	70	72	70
Administration	<u>32</u>	<u>41</u>	<u>38</u>
AASB Total	<u>1,872</u>	<u>2,003</u>	<u>1,793</u>

The human resources budget for 2010-2011 was based on a staff complement of 6 ½ people. The actual staff complement was 6, as one staff member left on maternity leave during the year. Meetings and travel costs were significantly under budget because of unexpected changes in the timing and location of various international and domestic meetings and related project work, including a delay in starting one domestic project.

## Future Outlook

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The AASB's 2010-13 Strategic Plan provides a useful roadmap to developments to which stakeholders can look forward. For the most part, the AASB will be continuing its efforts on important initiatives already started that have been summarized in this report.

Regarding auditing standards, auditors will be given some time to catch their breath and implement the first set of Canadian Auditing Standards (CASs) without having to deal with many new standards. As previously noted, the AASB will be participating in the International Auditing and Assurance Standards Board's (IAASB) efforts to monitor the implementation of these new standards. However, there will be considerable activity regarding standards for review engagements, assurance services and services related to capital markets. These and other efforts will all contribute to the development of the restructured CICA Handbook – Assurance. The AASB will also continue in its efforts to improve the ways in which it interacts with stakeholders, in both obtaining input and communicating what the AASB is doing and why.

In addition, over the next few years, regulators and others will continue to ask fundamental questions about the quality of audits and whether auditors are meeting public expectations and acting in the public interest. These are global issues and the AASB will continue to make a significant contribution to the IAASB's initiatives, such as those related to auditor's reports and defining the components of audit quality.

In summary, the AASB is looking forward to another productive year. Further progress in meeting the AASB's goals will be made with the continued support of members of the AASB's task forces and other groups, as well as effective input from the AASB's stakeholders, for which the AASB is most appreciative.

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\*Gordon C. Fowler, ended his term as Chair in November 2010.

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