

BASIS FOR CONCLUSIONS Section 7500, Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents

January 2010

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS.

Background

In May 2009, the AASB issued an Exposure Draft (ED 7500) proposing to redraft extant Section 7500, AUDITOR ASSOCIATION WITH ANNUAL REPORTS, INTERIM REPORTS AND OTHER PUBLIC DOCUMENTS. There were 5 respondents to ED 7500 (identified below).

The AASB approved redrafted Section 7500 at its meeting in September 2009. The Auditing and Assurance Standards Oversight Council concluded that the AASB followed due process in developing this redrafted Section prior to its issuance in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in redrafting Section 7500, the public exposure and approval steps for this project and how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft of proposed changes to Section 7500. This information is set out below.

AASB's Objectives in Redrafting Section 7500

The AASB's objectives in redrafting Section 7500 included the following.

- (a) Clarify the purpose and scope of the Section.

The AASB identified a need to clearly distinguish extant Section 7500, from Canadian Auditing Standard (CAS) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. To make this distinction, the AASB decided that the purpose and scope of Section 7500 should be narrowed to focus on the auditor's responsibilities after the completion of the audit of the entity's financial statements, when the auditor agrees to consent to the use of the auditor's report on entity's financial statements in connection with designated documents (as defined in the Section), and an entity's Annual Information Form (AIF), filed with securities regulatory authorities.

- (b) Clarify the auditor's responsibilities regarding an entity's AIF.

A public entity's AIF often describes matters that are important to understanding key aspects of that entity's business and there may be an expectation in the marketplace that the auditor is associated with the AIF. However, the AIF is often filed with securities regulatory authorities after the filing of designated documents, including the entity's financial statements. Therefore, clarification of the auditor's responsibilities regarding an entity's AIF was needed.

- (c) Add material contained in AuG-44 to Section 7500.

In December 2005, the AASB issued ASSURANCE AND RELATED SERVICES GUIDELINE AuG-44, The Auditor's Written Consent to the Use of the Audit Report in a Continuous Disclosure Document. Given the change in focus of Section 7500, as noted above, it was decided that AuG-44 should be withdrawn, with the guidance in AuG-44, as appropriate, being included as requirements and application and other explanatory material in redrafted Section 7500.

- (d) Appropriately position in the Handbook requirements and guidance related to translation.

The AASB noted that the requirements and guidance set out in extant paragraphs 7500.37-.40 apply to documents that would be beyond the scope of redrafted Section 7500 and, therefore, this material should be incorporated into Section 5020, ASSOCIATION.

Significant Matters Arising from Comments in Response to ED 7500

Providing consent in the absence of regulatory requirements

1. A respondent suggested that the standard should more clearly state why it is necessary, or at least useful, for an auditor to issue consent in the absence of securities regulatory requirements. The AASB concluded that no change needed to be made to redrafted Section 7500 regarding this matter. Paragraph 7500.04 in ED 7500 explains that consent is a matter of contract between the auditor and the entity. The redrafted Section builds on the concept in Section 5020, that providing consent results in the auditor being associated with relevant information. However, Section 7500 is not intended to provide a basis for the auditor to decide whether agreeing to provide consent is appropriate — that decision-making process is beyond the scope of the Section.

Consideration of whether the financial statements and auditor's report thereon are accurately reproduced

2. A respondent raised a concern that the auditor of an entity that does not file designated documents is no longer required to consider whether the financial statements and the auditor's report thereon are accurately reproduced in annual reports. The respondent suggested that expanding the scope of CAS 720 or ED 7500 to address this issue.
3. The AASB concluded that no change needed to be made to redrafted Section 7500 at this time. When a public accountant consents to the use of his or her name in connection with certain information, the public accountant's determination of the accurate reproduction of that information, and the communication issued is covered by requirements and guidance in Section 5020. However, when the auditor is not providing consent, the matter of accurate reproduction is not covered by redrafted Section 7500 or Section 5020. The AASB plans to initiate a project to revise Section 5020 and those Sections of the Handbook dealing with specialized areas (i.e., the Sections in the 7000 series). The matter raised by the respondent would be considered as part of this project. The AASB also concluded that any amendment of the wording of International Standard on Auditing (ISA) 720 in drafting CAS 720 regarding this matter would not be appropriate, since the AASB's criteria for making such an amendment would not be met.

Annual Information Form

4. A respondent disagreed with deeming the auditor to be associated with the AIF and suggested that paragraphs 7500.02 and 7500.23 in ED 7500 dealing with AIF be removed. The AASB concluded that no changes to redrafted Section 7500 need to be made at this time. Applying the concept of deemed association to the AIF is consistent with extant Section 7500. However, as part of its future project to revise the Sections in the 7000 series, the AASB may reconsider the requirements and guidance provided regarding the AIF.
5. A respondent suggested that guidance be added to Section 7500 to deal with the auditor's responsibilities if he or she becomes aware of misrepresentation in the AIF. The AASB agreed with the respondent's suggestion and has added paragraph 7500.24 to deal with this matter.

Disclaiming responsibilities

6. A respondent raised some concerns about the phrase "disclaim any responsibility with respect to the document" in paragraph 7500.10 of ED 7500. In particular, the respondent was concerned that under CAS 720 the auditor would have some responsibility for certain documents containing the financial statements and, therefore, the phrase "disclaiming responsibilities" may be misinterpreted as disclaiming those responsibilities. The respondent suggested that the phrase be removed.
 7. The AASB concurred with the respondent's view on this matter and deleted the phrase in redrafted Section 7500.
- Performing additional subsequent events procedures when management delays the filing of the financial statements after the auditor has provided consent*
8. Two respondents raised a concern that paragraph 7500.A23 of ED 7500 appears to contain a requirement for the auditor to perform additional subsequent events procedures when management delays the filing of the financial statements after the auditor has provided consent. Both respondents indicated that it is unclear as to whether it is the AASB's intention to require the auditor to perform subsequent events procedures between the date of consent and date of filing. The respondents suggested that the material be either elevated to a requirement or deleted if it is not meant to be a requirement.
 9. The material in paragraph 7500.A23 of ED 7500 dealing with the auditor performing subsequent events procedures between the date of consent and the date of filing was included in ED 7500 with the aim of providing clarity as to what the auditor would do when management delays the filing of the financial statements after the auditor has provided consent. The AASB noted that this material was not taken from extant Section 7500 or AuG-44 and concluded that such a requirement would go beyond the limited scope of redrafting Section 7500. Accordingly, the AASB removed the material dealing with the auditor's responsibilities when management delays the filing of financial statements after the auditor has provided consent from paragraph 7500.A22 of ED 7500.

Auditor becoming aware of apparent failure to meet the requirements of securities legislation

10. A respondent raised a concern regarding the requirement under paragraph 7500.19(d) of ED 7500 for the auditor to respond appropriately if he or she identifies apparent failure of the designated document to meet the requirements of securities legislation. The respondent indicated that paragraph 7500.19(d) incorrectly implies that the auditor is required to have a detailed knowledge of securities legislation.
11. Paragraph 7500.19 of ED 7500 sets out the auditor's responsibilities only if he or she becomes aware of matters listed in paragraph 7500.19. There was no intention of implying that an auditor needs to have detailed knowledge of securities legislation or be proactive in seeking out instances of non-compliance with such legislation. To improve clarity regarding this matter, the AASB changed the phrase "if the auditor identifies" to "if the auditor becomes aware".

Misrepresentation

12. Paragraph 7500.A26 of ED 7500 explains that the word "misrepresentation" has different definitions under different securities acts. Generally, the word refers to an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

13. Two respondents provided suggestions on the term "misrepresentation". One respondent suggested that the term "material misstatement of fact" be used to be consistent with CAS 720. The other respondent suggested that the term "misrepresentation" be included in the Definitions.
14. The term "misrepresentation" as used in Section 7500 differs from "misstatement of facts". "Misrepresentation" may refer to an untrue statement of fact only, or to an untrue statement of fact and an omission to state a material fact, depending on the definition provided in securities legislation or contract. The auditor's responsibilities differ depending on the definition in the particular circumstance. For that reason, the AASB concluded that using the term "misstatement of fact" or including the term "misrepresentation" in the Definitions would not be appropriate.

Conflict with Section 7110

15. A respondent commented that the guidance in paragraph 7500.A28 of ED 7500 stating that the auditor would not issue consent if the financial statements are not in accordance with GAAP seems to conflict with AUDITOR INVOLVEMENT WITH OFFERING DOCUMENTS OF PUBLIC AND PRIVATE ENTITIES, paragraph 7110.58. Paragraph 7110.58 states that, in limited circumstances, certain documents containing the disclosure of the subsequent events are deemed by securities legislation to modify or supersede the financial statements incorporated by reference in the short form prospectus. Accordingly, it is not normally necessary to amend the financial statements incorporated by reference in the short form prospectus to include the disclosure of the subsequent event, or to change the date of a previously issued auditor's report.
16. The AASB concluded that there is no conflict between paragraph 7500.A28 of ED 7500 and paragraph 7110.58. The statement that an auditor would not issue consent if the financial statements are not in accordance with GAAP is accurate. Paragraph 7110.58(a) anticipates that the interim financial statements are in accordance with GAAP. Paragraphs 7110.58(b)-(d) deal with circumstances unique to filing of a short form prospectus that are not relevant to Section 7500.

Form and content of auditor's consent

17. Paragraph 16(e) of AuG-44 provided guidance that the auditor's consent would state that the auditor carried out only limited procedures, including inquiries of the entity's management as to the existence of subsequent events occurring between the date of the report and the date of the consent that may require adjustment to or disclosure in the financial statements. It also stated that the auditor has carried out no procedures subsequent to the date of the consent. In carrying forward this material in ED 7500, the AASB excluded the reference to the auditor carrying out only limited procedures.
18. A respondent raised a concern that not carrying forward the excluded material in paragraph 16(e) of AuG-44 to ED 7500 weakens the consent since the material helps users to understand the nature and extent of the work carried out by the auditor.
19. The AASB concluded that the exclusion of the material is appropriate. The consent is meant to acknowledge only that the auditor's report can be used in connection with the designated document. Unlike some form of assurance report, the consent is not meant to set out what procedures the auditor performed to be in a position to provide such consent.

List of respondents to ED 7500

Auditor General of Alberta
Office of the Auditor General of Canada
PricewaterhouseCoopers
Provincial Auditor of Saskatchewan
Raymond Chabot
Grant Thornton

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