

## Preface to the CPA Canada Handbook – Assurance

July 2018

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, [Appendix 1](#) of the *Preface* to the CPA Canada Handbook – Assurance, "Amendment Criteria Used by the AASB When Adopting ISQCs as CSQCs, ISAs as CASs and ISAEs as CSAEs."

### **Purpose of this Basis for Conclusions**

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the AASB's review of its amendment criteria, how the AASB obtained input from stakeholders and how it dealt with significant matters arising from comments received. This information is set out below.

### **Background**

In 2009, after extensive consultation with stakeholders, the AASB decided to adopt International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs). Based on the overwhelming support from respondents for few changes to the ISAs, the AASB decided to adopt ISAs with limited amendments. In doing so, the AASB concluded that it should make amendments to ISAs, or change the effective date of application of ISAs as CASs, in accordance with criteria to ensure that changes to standards are made on an appropriate and consistent basis.

The amendment criteria were considered and applied in the AASB's initial adoption of the clarified ISAs and International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, in 2009 and in the adoption of all subsequent new or revised ISAs.

#### *The AASB's 2016-2021 Strategic Plan*

When drafting its 2016-2021 Strategic Plan, the AASB met with various stakeholder groups to obtain their views on whether:

- the AASB should continue to adopt ISAs; and
- the amendment criteria remain appropriate.

Most stakeholders expressed support for the continued adoption of ISAs as CASs. However, views were split as to whether the Board should revisit the amendment criteria.

The AASB issued an Invitation to Comment on its draft 2016-2021 Strategic Plan in November 2015. In the Invitation to Comment, the Board proposed that it would review the amendment criteria. Several respondents supported the AASB's proposal to consider revisions to its criteria for making amendments to ISAs when adopting them as CASs, or to how the AASB applies these criteria. The respondents' views were split: some thought that the criteria themselves should be revised, others argued that the AASB criteria are appropriate but that the AASB needed to consider whether it should be more flexible in their application.

The Basis for Conclusions on the AASB's 2016-2021 Strategic Plan is available on its website.

In response to the respondents, the AASB reviewed its amendment criteria. It considered changes in the standard-setting environment, both globally and within Canada, in the decade since the criteria were initially developed. It also considered the practices of other national standard setters that adopt the International Auditing and Assurance Standards Board's (IAASB) standards.

### **Significant Matters Considered by the AASB When Reviewing the Amendment Criteria**

The following sets out key matters considered by the AASB in its review.

#### *Applying the criteria to the adoption of ISAs*

1. The AASB reviewed its experience in applying the amendment criteria to the adoption of the new or revised ISAs during the period 2010-2017. There were six Handbook releases of new or revised CASs during this period. For five out of the six releases, either there were no amendments required to the ISAs or, if amendments to the ISAs were required, the AASB encountered no complex issues that brought into question the appropriateness of the criteria.
2. However, during the AASB's recent project to adopt new auditor reporting standards, several complex issues arose. Some stakeholders said that the AASB should make significant amendments to the auditor reporting standards.
3. The AASB used the criteria when considering whether such amendments were appropriate and in the public interest.
4. In reviewing the results of that process, the AASB concluded that the criteria provided a useful frame of reference for determining what amendments, if any, are needed, and were effective in assisting the AASB to arrive at amendments that are in the public interest.

#### *Responding to emerging issues*

5. Some respondents to the Invitation to Comment said that the AASB should consider whether revisions to the amendment criteria would allow the AASB to respond on a timelier basis to emerging issues. They said that the amendment criteria

- could, for example, articulate the specific circumstances when the AASB might make amendments to CASs before the IAASB revises the corresponding ISAs.
6. The AASB believes that it already has a mechanism in place for addressing this type of issue. For example, the AASB can issue an Assurance and Related Services Guideline or non-authoritative guidance, as long as it does not conflict with the CASs. The AASB collaborates with CPA Canada's Research Guidance and Support group to promote the development of timely non-authoritative guidance. However, the AASB believes the benefits of international harmonization of the standards outweighs any timing advantage in introducing changes in Canada, which may then conflict with or be different from later changes the IAASB makes.
  7. The AASB concluded that no revisions to the amendment criteria were necessary to address the AASB's ability to respond appropriately to emerging issues.  
*Consideration of the term "public interest"*
  8. Since the AASB developed its amendment criteria in 2009, there has been increased consideration among oversight bodies, regulators and other stakeholders about the meaning of the term "public interest". In 2016, the Auditing and Assurance Standards Oversight Council (AASOC) issued a paper on "What the Public Interest Means to AASOC."
  9. The AASB follows a due process in developing and adopting standards that includes considering the public interest. The amendment criteria were developed to be a part of this due process.
  10. The AASB reviewed AASOC's paper to assess whether the paper reflected new or different thinking on public interest since the amendment criteria were first established that would require a change to the criteria.
  11. The AASB concluded that the amendment criteria are consistent with the concepts laid out in the AASOC paper.  
*Amendment criteria used by other national standard setters*
  12. Some stakeholders suggested that the AASB consider whether its approach to adopting ISAs is consistent with that of other national standard setters. In particular, stakeholders asked whether the AASB's approach of making only limited amendments to the ISAs when adopting them as CASs should be changed to align more closely with practices of other standard setters.
  13. The AASB reviewed the approaches of three auditing and assurance standard setters<sup>1</sup> and one accounting standard setter<sup>2</sup>. The AASB noted that the approaches to amendment criteria these standard setters use depend on their philosophy toward adoption or convergence with international standards and other considerations specific to each environment.
  14. The AASB recognized that, while such benchmarking is useful, it was difficult to analogize because of the difference in approach and context. The AASB concluded that its amendment criteria are generally consistent with those used by national standard setters that fully adopt international standards.
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## Footnotes

1. The American Institute of Certified Public Accountants, the Australian Auditing and Assurance Standards Board and the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany).
  2. The Canadian Accounting Standards Board.
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