

Assurance and Related Services Guidelines

BASIS FOR CONCLUSIONS Authority of Guidelines Issued by the AASB

September 2012

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB).

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in clarifying the authority of Assurance and Related Services Guidelines issued by the AASB, 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. This information is set out below.

Background

In October 2010, the International Auditing and Assurance Standards Board (IAASB) developed and issued its Exposure Draft, "Proposals Relating to International Auditing Practice Statements (IAPSS)." The IAASB approved final amendments to the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in December 2011.

In January 2012, the AASB issued its Exposure Draft addressing the authority of Guidelines issued by the AASB, including amendments to the *Preface to the CICA Handbook – Assurance*, Canadian Auditing Standard (CAS) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, and Section 5021, **AUTHORITY OF AUDITING AND ASSURANCE STANDARDS AND OTHER GUIDANCE FOR ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION**.

At the same time, the AASB issued an Exposure Draft proposing to withdraw the following Guidelines that were based on IAPSSs that were withdrawn by the IAASB in December 2011:

- 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.

There were four respondents to the AASB's Exposure Drafts (identified below). In addition to these responses, one stakeholder provided input to the AASB staff, but did not submit a formal response.

The AASB approved changes to the *Preface*, CAS 200 and Section 5021 and the withdrawal of the three Guidelines in June 2012. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in making these changes prior to their issuance in the *CICA Handbook – Assurance*.

AASB's Objectives in Clarifying the Authority of Guidelines Issued by the AASB

The AASB's objective was to clarify the authority of Guidelines issued by the AASB by developing a hierarchy explaining the relationship of the CASs, Guidelines and non-authoritative material. Further changes were proposed to clarify the practitioner's obligations with regard to Guidelines related to the audit of financial statements and other historical financial information and Guidelines related to engagements other than those noted above.

Significant Matters Arising from Comments in Response to the AASB's Exposure Drafts

Statement of Authority

1. The majority of respondents agreed with the AASB's proposals. Respondents stated that the proposed changes clarify the practitioner's obligations with respect to Guidelines.
2. One respondent suggested that the *Preface* include a definition of "Canadian standards". This respondent felt that a clear definition of Canadian standards, combined with some further clarification of the authority of these standards versus Guidelines would be easier to understand.
3. The AASB agreed and made additional changes to the *Preface* to define what is meant by Canadian standards, authoritative pronouncements and non-authoritative material. The AASB also made changes to explicitly state that the authority attached to Canadian standards differs from that attached to Guidelines.
4. One respondent believed that the new authority given to Guidelines could potentially have a negative impact on multi-location audits. The respondent noted that currently the CASs are largely consistent with the International Standards on Auditing (ISA). However if new Guidelines are developed or adopted that affect the implementation of the CASs, the conduct of international audits may be significantly complicated.

5. The AASB believes that the criteria established in Appendix 5 of the revised *Preface* are sufficiently strict that there would be very few new Guidelines, particularly as they relate to the audit of financial statements. Further, Guidelines do not introduce new requirements. Therefore, the authority of Guidelines and the practitioner's responsibility with regard to Guidelines should have little to no effect on the work effort of component audits as suggested by the respondent.
6. One respondent expressed concern with the use of the phrase in CAS 200 "shall have an understanding of the entire text." The respondent queried how one would assess compliance with a requirement to "understand". The respondent suggested changing the requirement to "the practitioner shall consider the entire text." The AASB disagreed with this change, noting that the term "consider" was used in the extant *Preface* and anecdotal evidence indicated that this was not well understood. Therefore, the AASB has not proposed further changes.

AASB's due process

7. Two respondents commented that they would like greater clarity on the AASB's due process to issue Assurance and Related Services Guidelines and Canadian Auditing Practice Notes (CAPNs). One respondent further queried whether the AASB would automatically adopt an International Auditing Practice Note (IAPN) in the same manner that it automatically adopts an ISA.
8. The AASB's due process is published on its website. The AASB believes that the description of its due process as it relates to the development of Guidelines is sufficiently clear.
9. As CAPNs are non-authoritative material, there is no AASB due process for their development or adoption. Only authoritative material (standards and Guidelines) are subject to the AASB's due process. The AASB has discussed its approach to adopting future IAPNs issued by the IAASB. The AASB has concluded that it would consider, on an individual basis, whether to adopt an IAPN as a CAPN for use in Canada.

Canadian Auditing Practice Notes

10. One respondent believed that the *Preface* should contain explicit requirements related to Canadian Auditing Practice Notes (CAPNs), similar to requirements for Guidelines. This respondent felt that although CAPNs are considered to be non-authoritative guidance, legal and regulatory bodies may still hold practitioners to a higher standard since the material is issued by the AASB to provide practical assistance to practitioners.
11. Non-authoritative material, such as CAPNs, is not intended to impose additional requirements on the practitioner. CAPNs provide practical assistance to practitioners and may contain additional background and educational material that would not be appropriate to include in a CAS. The revised *Preface* clearly states that non-authoritative material is not part of the standards in the CICA Handbook – Assurance and does not impose additional requirements on practitioners.
12. Further, non-authoritative material may be developed by parties other than the AASB. The AASB may choose to publish non-authoritative material developed by task forces of the AASB, AASB staff, other CICA groups and staff, the IAASB groups and staff, etc. The AASB's involvement in the development of such material is normally very limited, particularly as compared to its involvement in the development of authoritative material. The AASB's involvement should in no way suggest that there is an obligation on the practitioner to read and follow it.

Withdrawal of AuG-19, AuG-32 and AuG-39

13. Most respondents supported the AASB's proposal to withdraw these Guidelines.
14. One respondent felt that the three topics addressed by the Guidelines are still relevant to Canadian auditors and withdrawing these Guidelines would deprive auditors of an important source of information. This respondent believed that the material in the Guidelines could become the subject of CAPNs to provide a source of information on these topics for Canadian auditors.
15. The AASB analyzed the Guidelines before proposing to withdraw them and concluded that overall the guidance is quite generic. The Guidelines do not seem to provide substantive insightful guidance beyond that which is contained within the relevant CASs themselves. Further, the AASB does not believe there are any circumstances particular to Canada addressed in the Guidelines. Therefore, it is unlikely that the criteria for the development of Guidelines as set out in Appendix 5 to the *Preface* would be met. The AASB notes that CAPN 1000, "Special Considerations in Auditing Financial Instruments" will replace AuG-39.

Respondents to the AASB EDs

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