

BASIS FOR CONCLUSIONS AuG-47, Dating the Review Engagement Report on Financial Statements

December 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, ASSURANCE AND RELATED SERVICES GUIDELINE AuG-47, Dating the Review Engagement Report on Financial Statements.

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objective in issuing AuG-47, 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 the proposed Guideline.

Background

The AASB's objective in issuing AuG-47 is to provide guidance that explains why the public accountant would not date his or her review engagement report on financial statements before he or she has:

- (a) obtained management's verbal representations regarding its responsibility for the fair presentation of the financial statements and its belief that the financial statements are complete and presented fairly; and
- (b) performed sufficient procedures to support the content of his or her report.

The approach described above is largely consistent with that required for dating auditor's reports under Canadian Auditing Standard (CAS) 700, *Forming an Opinion and Reporting on Financial Statements*. However, the dating of the review engagement report in accordance with Section 8100, GENERAL REVIEW STANDARDS, involves the application of the concept of "substantial completion" while under CAS 700, the concept of "substantial completion" does not apply.

The AASB is proposing to temporarily maintain the concept of "substantial completion" for review engagements because it has undertaken a project to revise the review engagement standards. As such, the AASB believes that any change related to dating of the review engagement report needs to be integrated with other changes to the review engagement standards that will result from this project.

The guidance in the standards for review engagements on the concept of "substantial completion" is minimal. Section 5405, DATE OF THE AUDITOR'S REPORT, provides more guidance on this concept, but in the context of an audit of financial statements. Nevertheless, some public accountants performing a review engagement interpret the meaning of "substantial completion" by referring to Section 5405. However, that Section will no longer be applicable when the CASs come into effect (i.e., for audits of financial statements for periods ending on or after December 14, 2010). The AASB believes that this gives rise to a need for guidance on how the concept of "substantial completion" is to be applied to dating of the review engagement report. This guidance is provided in AuG-47.

Public Exposure and Approval

In March 2010, the AASB issued an Exposure Draft (ED) that proposed to:

- (a) issue a new ASSURANCE AND RELATED SERVICES GUIDELINE, Dating of the Review Engagement Report; and
- (b) revise 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 address matters related to the dating of the practitioner's report.

This Basis for Conclusions pertains to item (a).

There were 10 respondents to the ED (identified below).

The AASB approved AuG-47 in September 2010. The Auditing and Assurance Standards Oversight Council concluded that the AASB followed due process in developing this Guideline prior to its issuance in the CICA Handbook – Assurance.

Significant Matters Arising from Comments in Response to the ED

Request to remove the concept of "substantial completion" from the review engagement standards

1. Respondents suggested that instead of issuing AuG-47, the concept of "substantial completion" be removed from the review engagement standards. Various concerns were expressed, including a concern that under AuG-47 essentially "all" review engagement work would need to be completed before dating the review engagement report, rather than substantially all work, which seemed to be a fundamental conceptual change. Another respondent suggested that the review engagement standards adopt the same concept as in CAS 700, *Forming an Opinion and Reporting on Financial Statements*, while another suggested that the review engagement standards adopt the same concept as in the International Standards on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*.

2. The AASB concluded that no amendment to the review engagement standards should be made at this time. Any changes related to dating of the review engagement report will be integrated with other changes to the standards that will result from the AASB's review engagement project that is currently underway. The AASB acknowledges that, for some practitioners, the guidance in AuG-47 will result in a change in practice because it will provide clarity on how the concept of "substantial completion" is properly applied in a review engagement, but not because it imposes new requirements on the practitioner.

Request for amendments to the wording of the Guideline

3. A respondent suggested that paragraph 3 of the proposed Guideline be amended to replace the wording "financial statements have been completed" (which is not defined in the Handbook) with "all the statements that comprise the financial statements, including the related notes, have been prepared." This latter wording is used in CAS 700, *Forming an Opinion and Reporting on Financial Statements*. The AASB concluded that such an amendment should not be made. Although the wording used in CAS 700 may be clearer, the wording in paragraph 7 of AuG-47 is consistent with that used in PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS, paragraph 8200.31(b). The Guideline is anchored on the requirements of the review engagements standard and, therefore, should use the same terminology to describe the same concepts. Otherwise, there is a risk that readers may not make the appropriate connection between the standard and AuG-47.
4. Some respondents suggested that the proposed Guideline be amended to clarify that management's written representations need not be received before the review engagement report can be dated. One of these respondents expressed concern that practitioners will not understand the subtle distinction between the statement in AuG-47 that before the practitioner dates his or her report, "management has *acknowledged* responsibility for the financial statements" and the requirement in CAS 700, *Forming an Opinion and Reporting on Financial Statements* that "those with the recognized authority have *asserted* that they have taken responsibility for the financial statements" prior to the report date.
5. Paragraph 8 of AuG-47 appropriately reflects that receipt of management's written representations would be obtained on or after the date of the report but before its release. There was no intention of implying that management's written representations need to be received prior to dating of the review engagement report. To improve clarity regarding this matter, the AASB amended paragraph 7 of AuG-47 to include:
 - (a) the word "verbal" when referring to obtaining management's representations in establishing the date of the report; and
 - (b) the wording "in advance of obtaining management's written representations" to distinguish the activity of obtaining management's *verbal* representations from obtaining management's *written* representations.
6. A respondent suggested that paragraph 7 of the proposed Guideline (paragraph 8 of AuG-47) be amended to state that management's written representations can be received *on* the date of the report (rather than only after the date of the report). The AASB agreed with the respondent's suggestion and has made the amendment. This amendment is consistent with PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS, paragraph 8200.36(c), which states that the public accountant "usually obtains management's written representations *following* the substantial completion of the review but before the release of his or her report." The word "following" means on or after the date of the report.

Request to expand the scope of the Guideline

7. A respondent suggested that the proposed Guideline be amended to cover review engagement reports on financial statements prepared in accordance with a basis of accounting other than GAAP – consistent with the scope of Section 8200, PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS. The AASB agreed with the respondent's view and has deleted references to "financial statements in accordance with GAAP" in AuG-47 and added wording to paragraph 4 to address prescribed circumstances when the financial statements are prepared in accordance with another basis of accounting. In addition, the AASB amended paragraph 1 of AuG-47 to include wording that clarifies that the scope of the Guideline is limited to review engagements undertaken to report on financial statements. The title of the Guideline has also been amended to more clearly reflect its scope.

Request for additional guidance

8. Some respondents requested that the proposed Guideline be amended to include additional guidance on how to apply the concept of "substantial completion" to review engagements of non-financial information and direct reporting. The AASB carefully considered the matter and concluded that it would not be appropriate to make such amendments. The guidance in AuG-47 is anchored on the requirements of Section 8200, PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS. Section 8600, REVIEWS OF COMPLIANCE WITH AGREEMENTS AND REGULATIONS, does not contain equivalent requirements. For that reason, the AASB concluded that expanding the scope of the Guideline to include guidance on engagements under Section 8600 would impose new requirements on those engagements and raise confusion about how the references to Section 8200 in the Guideline apply to engagements under Section 8600. Guidelines cannot impose any requirements on practitioners. For the same reason, the AASB concluded that engagements under Section 8500, REVIEWS OF FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS, should not be within the scope of AuG-47. However, practitioners are not prohibited from applying the guidance in AuG-47 when performing reviews under Section 8500 or Section 8600, and some practitioners may choose to do so as good practice.

9. A respondent suggested that the proposed Guideline be amended to include additional wording to clarify whether the completion of the review is required to be documented prior to the date of the report similar to what is required for the engagement quality control review. The AASB concluded that such an amendment should not be made. The AASB believes that the timing of completion of documentation is appropriately addressed in **QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION**, paragraph 5030.32, which states: "On or before the date of the practitioner's report, the practitioner, through review of the working papers and discussion with the assurance team, should be satisfied that sufficient appropriate evidence has been obtained to support the conclusions reached and the content of the practitioner's report."
10. A respondent suggested that the proposed Guideline be amended to include additional guidance on the appropriate procedures a practitioner should consider performing when there is an extended period between completion of fieldwork and the date of the report. The AASB concluded that AuG-47 should not include additional guidance on this matter. The AASB believes that an extended period between the completion of fieldwork and the date of the report should not warrant a change in the nature or extent of subsequent events procedures. The guidance in the review engagement standard on subsequent events (**PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS**, paragraph 8200.23(f)(iii)) applies to all entities, regardless of whether there is a delay in management approving the financial statements.
11. A respondent suggested that the proposed Guideline be amended to include additional guidance to indicate that obtaining sufficient appropriate evidence in a review engagement does not require that those with the recognized authority assert that they have taken responsibility for the financial statements as required in CAS 700, *Forming an Opinion and Reporting on Financial Statements*. The AASB concluded that such amendments should not be made. The financial statements that have been reviewed are those of the entity — they are not the practitioner's. The practitioner needs to know that those with the recognized authority have asserted that they have taken responsibility of the financial statements before the review engagement report can be dated. The added wording in paragraph 7 of AuG-47 makes clear that management's acknowledgment of its responsibility for the financial statements prior to dating of the report is verbal (rather than written, as required under CAS 700).
12. A respondent urged AASB staff to communicate the existence of this new guidance through vehicles such as *Risk Alert*, *Practice Advice*, and *CAmagazine*, to help ensure practitioners are aware of what may be for them a significant change in their performance of review engagements. AASB staff will provide communications on this topic.

List of Respondents to ED

Auditor General of British Columbia
 Auditor General of Canada
 Auditor General of Manitoba
 BDO Canada LLP
 Grant Thornton LLP
 Chan Foucher
 LeFebvre LLP
 Institute of Chartered Accountants of British Columbia
 Ordre des comptables agréés du Québec
 Provincial Auditor of Saskatchewan
 Raymond Chabot
 Grant Thornton LLP

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