

## **BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 501, Audit Evidence — Special Considerations for Selected Items**

September 2009

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, Canadian Auditing Standard 501, *Audit Evidence — Special Considerations for Selected Items*.

### **Background**

In December 2007, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Auditing Standard (ISA) 501 (Redrafted), *Audit Evidence — Special Considerations for Selected Items* (ED-ISA 501). The IAASB approved final ISA 501 in September 2008 subject to confirmation from the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in December 2008.

In January 2008, the AASB issued its Exposure Draft to adopt proposed ISA 501 as CAS 501 (ED-CAS 501) to replace:

- Section 6030, INVENTORIES;
- Section 6560, COMMUNICATIONS WITH LAW FIRMS REGARDING CLAIMS AND POSSIBLE CLAIMS (INCLUDING THE JOINT POLICY STATEMENT); and
- ASSURANCE AND RELATED SERVICES GUIDELINE AuG-26, Applying Audit Procedures to Segment Disclosures in Financial Statements.

There were 7 respondents to ED-CAS 501 (identified below).

The AASB approved CAS 501 in October 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

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

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 501 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 501.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 501 is also available. This information is set out below.

### **Significant Matters**

#### **AASB's Consideration of Amendments to ISA Wording**

1. As proposed in the ED-CAS 501, the Joint Policy Statement Concerning Communications with Law Firms Regarding Claims and Possible Claims in Connection with the Preparation and Audit of Financial Statements (JPS) between the Canadian Bar Association and the AASB has been appended to the CAS. Paragraph CA25a was added to describe the purpose of the JPS and provide a reference to it. No comments were received from respondents indicating an objection to this amendment.
2. Other than the amendment regarding the JPS noted above, CAS 501 contains no other amendment to the ISA wording. No respondent requested an amendment.

### **Other Matters**

#### *Future Revisions*

3. The IAASB redrafted, but did not revise, ISA 501. Accordingly, changes made to the current version of ISA 501 were limited. Several Canadian respondents suggested that when ISA / CAS 501 is revised in the future, consideration should be given to matters that include the following:
  - (a) ISA / CAS 501 is a procedures-based standard. Consideration should be given to replacing it with one or more principles-based standards.
  - (b) It is not entirely clear why the IAASB singled out for particular attention those matters currently in ISA / CAS 501. If specific matters are to be addressed by the ISAs, then criteria should be applied in a clear and consistent way to determine what those specific items should be. For example, in the current environment, complex financial instruments, variable interest entities or other like items might be better candidates for specific attention.

For those matters that are selected for specific attention, all the significant assertions underlying those matters should be addressed by the ISA / CAS. For example, the ISA / CAS should deal with the valuation assertion for inventories, not solely the existence assertion.

4. These issues were communicated to the IAASB in the AASB's response to the ED-ISA 501 and will be considered by the IAASB when it undertakes a future revision of ISA 501.

**List of Respondents to ED-CAS 501**

BDO Dunwoody LLP

Auditor General Alberta

Canadian Public Accountability Board

Deloitte & Touche LLP

Institute of Chartered Accountants of British Columbia

Ordre des comptables agréés du Québec

Provincial Auditor Saskatchewan

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