

## BASIS FOR CONCLUSIONS Limited Scope Revisions to Certain Standards for Assurance Engagements

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, Section 5025, STANDARDS FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION.

### Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in making limited scope revisions to certain standards for assurance engagements, 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 changes. This information is set out below.

### Background

In June 2009, the AASB commenced a project to identify matters that should be addressed in the short term to ensure that fundamental concepts in Section 5025 and related standards for assurance engagements, as well as Assurance and Related Services Guidelines, will be consistent, where practicable, with the relevant fundamental concepts in the CASs.

The project was undertaken on the basis that such inconsistencies should be eliminated, if practicable, before the AASB adopts or develops new assurance engagement standards.

The AASB deliberated which inconsistencies should and could be eliminated in the short term and determined that dating of the practitioner's report was the most urgent to be addressed.

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 (b).

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

The Auditing and Assurance Standards Oversight Council concluded that the AASB followed due process in developing these revisions prior to their issuance in the CICA Handbook – Assurance.

### AASB's Determination of the Nature and Extent of the Limited Scope Revisions

The AASB determined that changes to the wording of the standards for assurance engagements other than CASs, to address conflicts between those standards and the CASs should be made only when:

- (a) the matter relates to a concept fundamental to all assurance engagements;
- (b) leaving a matter unresolved, even in the short term, would likely:
  - (i) cause confusion for practitioners; or
  - (ii) lead to significant inconsistent application of the standards in practice; and
- (c) the required change can readily be made.

The International Auditing and Assurance Standards Board (IAASB) is proposing to revise International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The AASB is monitoring this project as part of its project to revise the equivalent standards for assurance engagements in Canada. No other revisions would be made to the standards for assurance engagements until the AASB determines whether to adopt ISAE 3000 or develop its own revised standards for assurance engagements.

### Significant Matters Arising from Comments in Response to the ED

#### Direct Reporting Engagements

1. Two respondents agreed with the proposed revisions but suggested that additional guidance is required on the dating of reports for direct reporting engagements. One respondent did not agree with the proposed revisions in the absence of additional guidance on this matter. These respondents noted that for direct reporting engagements, the drafting of the practitioner's report may be completed at a date significantly later than the date at which sufficient appropriate audit evidence has been obtained on which to base the report. One respondent noted that the report may be a long-form report, with chapters covering a number of different engagements performed at different times, with the overall report

dated in the month it is issued. In the view of these respondents, practitioners could misinterpret the guidance as worded and date their report either when all evidence has been obtained (i.e., at the end of examination field work) or at a later date (i.e., when the drafting of the (often long-form) report is completed.)

2. The AASB concluded that no change should be made to the wording of the guidance on dating the practitioner's report in response to these comments. Whether in a direct reporting engagement or an attest engagement, the report is to be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the report. Paragraph 5025.53 states that "Sufficient appropriate evidence should be obtained to provide the practitioner with a reasonable basis to support the conclusion expressed in his or her report." If a long-form report encompasses a number of engagements with different conclusions as at different dates, the dates of each conclusion would need to be made clear in the report.
3. The practitioner may choose to date the report as at a date later than the date on which sufficient appropriate evidence has been obtained on which to base the report. In that case, the question arises as to whether additional procedures need to be performed. The practitioner performs procedures designed to obtain sufficient appropriate evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the subject matter information, have been identified. Such procedures are clearly required for audits or reviews of financial statements. Unfortunately, Section 5025 and other assurance standards are silent on the practitioner's responsibilities regarding subsequent events. Providing additional guidance on this matter is beyond the scope of this limited revisions project, but will be addressed as part of the revisions to assurance standards over the longer term.
4. In addition, the lack of guidance in existing standards regarding direct reporting assurance engagements is one of the key issues being addressed by the IAASB in its project to revise ISAE 3000. The respondents' concern is shared by other Canadian stakeholders who raised this as a key issue to be addressed during the AASB's stakeholder consultations regarding the revision of Canadian standards for assurance engagements.

#### **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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