

## BASIS FOR CONCLUSIONS CANADIAN STANDARD ON ASSOCIATION (CSOA) 5000, Use of the Practitioner's Communication or Name

January 2017

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 Standard on Association (CSOA) 5000, *Use of the Practitioner's Communication or Name*.

### Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in developing CSOA 5000, 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 Drafts. This information is set out below.

### Background

CSOA 5000 replaces Section 5020, ASSOCIATION. The project to replace and revise Section 5020 began in 2012.

In March 2015, the AASB issued an Exposure Draft of CSOA 5000 (ED-CSOA 5000). Eight written responses to ED-CSOA 5000 were received (identified below).

In response to stakeholders' input, the AASB approved substantive changes to the proposed CSOA to improve the understandability and clarity of the standard. In March 2016, the AASB issued a Re-exposure Draft of CSOA 5000 (Re-ED CSOA 5000). Seven written responses to Re-ED CSOA 5000 were received (identified below).

The AASB approved CSOA 5000 at its meeting in September 2016. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in developing CSOA 5000 and related consequential amendments prior to their issuance in the CPA Canada Handbook – Assurance.

### AASB's Objectives in Developing CSOA 5000

The AASB's objectives in developing CSOA 5000 included redrafting Section 5020 in the clarity format and making revisions to clarify the practitioner's responsibilities regarding matters relating to the use of the practitioner's name or communication.

The public interest considerations in developing CSOA 5000 include:

- determining the appropriate balance between the practitioner's professional responsibility to avoid being associated with misleading information and the potentially unlimited circumstances with which the practitioner's communication or name could be used;
- clarifying the practitioner's responsibilities when information on which the practitioner reported, or the practitioner's communication with respect to that information, is translated into another language; and
- enhancing consistency in practice regarding the application of the association standard when a consent is requested.

## Significant Matters Arising from Comments in Response to ED CSOA 5000 and Re-ED CSOA 5000

### Scope

#### Clarifying Scope

1. A number of responses to ED-CSOA 5000 indicated that there may be a lack of clarity regarding the proposed scope. Re-ED CSOA 5000 proposed to:
  - (a) change the title from "association" to "use of the practitioner's communication or name" to avoid the impression that CSOA 5000 deals with all aspects of association;
  - (b) clarify that the practitioner's consent may be provided orally or in writing;
  - (c) clearly set out the circumstances regarding translated practitioner's communication and translated information on which the practitioner reported that are covered by this CSOA; and
  - (d) clarify that this CSOA does not deal with services outside the scope of the Handbook or the use of the practitioner's communication or name or communication in relation to such services.
2. Respondents to Re-ED CSOA 5000 were generally supportive of the above changes. Some respondents requested further clarification on a number of matters, including the Management Discussion and Analysis (MD&A) and communications arising from outsourced audit engagements.

MD&A

3. Paragraph 4(a) of Re-ED CSOA 5000 defined accompanying information as "Information, other than information on which the practitioner reported or the practitioner's communication thereon, that contains, or incorporates by reference, the practitioner's name or communication."
4. One respondent to Re-ED CSOA 5000 expressed a concern that the definition of accompanying information inappropriately excluded consent in connection with the MD&A as the MD&A does not contain, or incorporate by reference, the practitioner's name or communication.
5. The AASB agreed that a practitioner's consent in connection with a document that accompanies, but does not contain or incorporate by reference the practitioner's name or communication, should be within the scope of CSOA 5000. However, in the specific circumstance when the practitioner is requested to provide a written consent to the use of the auditor's report in connection with an MD&A filed with securities regulatory authorities, the AASB is of the view that the procedures set out in Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS (which was moved to the "Recently Replaced Pronouncements Still in Effect" section of the Handbook when Section 7170, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT INCLUDED IN A BUSINESS ACQUISITION REPORT was issued) are more appropriate.
6. Therefore, in finalizing CSOA 5000:
  - (a) accompanying information is defined as "information, other than information on which the practitioner reported or the practitioner's communication thereon, that contains, incorporates by reference, or otherwise accompanies the practitioner's communication or name";
  - (b) Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, was returned to the "Other Canadian Standards" section of the Handbook from the "Recently Replaced Pronouncements Still in Effect" section of the Handbook;
  - (c) paragraph A2(b) refers practitioners to Section 7500 when dealing with requests for written consent in connection with continuous disclosure documents filed with securities regulatory authorities; and
  - (d) paragraph A5 clarifies that consent in connection with MD&A not filed with securities regulatory authorities is within the scope of CSOA 5000.

#### Audited Financial Statements Filed with Securities Regulatory Authorities

7. Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, covers an auditor's written consent in connection with continuous disclosure documents filed with securities regulatory authorities, which include the entity's MD&A and the audited financial statements. A practitioner would refer to Section 7500 if the practitioner is requested to issue a written consent to the use of the auditor's report on the entity's financial statements filed with securities regulatory authorities.
8. In finalizing CSOA 5000, the AASB also deliberated more broadly the practitioner's responsibilities when the practitioner is requested to consent to the use of the practitioner's communication or name in connection with information on which the practitioner reported in the original language in the absence of accompanying information (for example, a practitioner's consent to the use of the review engagement report). The AASB intends to gather additional information to better understand such consents and will consider whether and, if so, how to address such consents in view of the results from the information gathering activities.

#### Communications Arising from Outsourced Audit Engagements

9. Two respondents to ED-CSOA 5000 and Re-ED CSOA 5000 raised a question as to which standard in the Handbook deals with a public accounting firm's communication to the legislative auditor in the circumstance when the legislative auditor outsources an audit of a public sector entity's financial statements to the public accounting firm. The respondents were particularly interested in guidance relating to the legislative auditor's request for the public accounting firm to issue a written report to the legislative auditor regarding the nature and extent of the public accounting firm's involvement with the financial statements.
10. Paragraph 2 of CAS 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, states that "an auditor may find this CAS, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements." The AASB noted that the International Auditing and Assurance Standards Board is undertaking a project to explore the application of the corresponding International Standard on Auditing (ISA) 600 to group audit engagements and the application of the ISAs more broadly to audit engagements where other auditors are involved.

#### Services Outside the Scope of the Handbook and Information Prepared by the Practitioner

11. A number of respondents to ED-CSOA 5000 requested that the scope be expanded to include:
  - (a) services outside the scope of the Handbook such as consulting and tax services or engagements performed under assurance standards of foreign jurisdictions; and
  - (b) information prepared by the practitioner (other than the practitioner's communication of information on which the practitioner performed a service in accordance with a Handbook standard) such as presentations and letters.
12. The AASB carefully considered the reasons provided for expanding the scope for the matters indicated above. The AASB concluded that expansion of the scope for the above matters is not appropriate or necessary.

13. With regard to services outside the scope of the Handbook, the AASB reaffirmed that such services are appropriately excluded from the scope of CSOA 5000. A key public interest consideration in developing CSOA 5000 is the balancing of the practitioner's professional responsibilities with avoiding an unreasonable onus being placed on the practitioner and inappropriate encroachment upon relevant ethical requirements that address these services outside of the Handbook. In the AASB's view, limiting the practitioner's responsibilities to services within the scope of the Handbook achieves an appropriate balance.
14. With regard to information prepared by the practitioner (other than the practitioner's communication of information on which the practitioner performed a service in accordance with a Handbook standard), the AASB noted that paragraph 12 of CSOA 5000 covers the circumstances when the practitioner becomes aware of information prepared by the practitioner is being inappropriately used, and the information includes references to the practitioner's communication or name.

### **Use of the Practitioner's Communication or Name in Connection with Accompanying Information**

#### *More Stringent Requirements*

15. A number of respondents to ED-CSOA 5000 suggested more stringent requirements relating to a practitioner's consent in connection with accompanying information, including requirements to:
  - (a) consider events in the intervening period from the date of the practitioner's communication to the date of consent;
  - (b) determine whether the accompanying information has been appropriately approved by responsible parties; and
  - (c) take appropriate actions if the practitioner becomes aware of a failure of the accompanying information to comply with laws or regulations.

#### *Intervening Period Events*

16. Two respondents to Re-ED CSOA 5000 and ED-CSOA 5000 indicated that consideration of intervening period events is necessary for the practitioner to have a basis to consent in connection with accompanying information. Both respondents expressed the view that relying on knowledge obtained when performing a service for the entity (especially if a long time has lapsed between that service and the date of the consent) is not sufficient to provide a basis for the practitioner to provide consent.
17. The AASB agreed with the respondents. Paragraph A13 of CSOA 5000 prompts the practitioner to perform additional procedures when there is an increased likelihood of intervening period events such as a significant period of time having elapsed between the date the practitioner performed the engagement and the date of consent.

#### *Determining Whether Accompanying Information Has Been Approved*

18. One respondent to ED-CSOA 5000 suggested that the practitioner be required to determine whether the accompanying information has been approved by those with recognized authority before consenting to the use of the practitioner's communication or name in connection with accompanying information.
19. Consents contemplated in CSOA 5000 may involve very simple consents with minimal work effort necessary for the practitioner to obtain a basis to consent. The AASB is of the view that a requirement to determine whether accompanying information has been approved would make CSOA 5000 overly onerous in such circumstances.
20. Nonetheless, the AASB agreed that, when applicable, determining whether accompanying information has been approved represents good practice. Accordingly, paragraph A13 provides guidance on this matter.

#### *Non-compliance with Laws and Regulations*

21. One respondent to ED-CSOA 5000 suggested that the practitioner be required to take appropriate actions if the practitioner becomes aware of non-compliance with laws or regulations. The AASB concluded that an explicit requirement to do so is not necessary because:
  - (a) Section 7150, AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, and Section 7170, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT INCLUDED IN A BUSINESS ACQUISITION REPORT, already deal with the practitioner's responsibilities in the context of consent provided in the securities regulatory environment; and
  - (b) non-compliance with laws and regulations resulting from material misstatement of the accompanying information is addressed by the requirement in paragraph 7 of CSOA 5000.

#### *Relationship between CSOA 5000 and Standards Containing Requirements Relating to Other Information*

22. Comments from a number of respondents to ED-CSOA 5000 suggest that there may be confusion regarding the relationship between CSOA 5000 and other standards that deal with accompanying information (or "other information") such as CAS 720, *The Auditor's Responsibilities Relating to Other Information*. To address potential confusion, paragraph A9 of CSOA 5000 explains that:
  - (a) various standards in the Handbook (as set out in the Appendix to CSOA 5000) contain material dealing with accompanying information (other information) in the absence of a request to consent;
  - (b) if the practitioner consents to the use of the practitioner's communication or name in connection with the accompanying information, the requirements relating to obtaining a basis to consent and responding to misstatements identified when obtaining a basis to consent (paragraphs 6-7) apply;

- (c) the practitioner may have already met some or all of the requirements in paragraphs 6-7 through performing procedures set out in the other standards. In such cases, the practitioner need not reperform the procedures for the purpose of consent; and
- (d) if the practitioner does not consent to the use of the practitioner's communication or name in connection with accompanying information, the requirements in paragraphs 6-7 do not apply. However, the practitioner is still required under paragraph 8 to consider whether communication of the practitioner's non-involvement with accompanying information is necessary.

#### *Clarifying When Consent Is Required*

23. A number of respondents to ED-CSOA 5000 requested guidance as to when the practitioner's consent is warranted. The AASB agreed with the respondents. Paragraph A10 of CSOA 5000 incorporates former paragraphs 5020.11 and 5020.15 as examples of when consent is warranted and when it is not warranted respectively.

#### **Translated Practitioner's Communication or Information on which the Practitioner Reported**

##### *Clarifying the Practitioner's Responsibilities Relating to Translated Accompanying Information*

24. In the circumstance when the practitioner is consenting to the use of the practitioner's communication or name in connection with translated accompanying information, one respondent to ED-CSOA 5000 suggested that the practitioner be required to satisfy him or herself that the accompanying information in the other language contains the same information and in all material respects carries the same meaning as accompanying information in the original language.
25. Paragraph A8 of CSOA 5000 reminds practitioners that the practitioner's responsibilities relating to accompanying information in paragraphs 5-8 are applicable regardless of the language of the accompanying information. In cases when the practitioner has already read and performed the required procedures on accompanying information in the original language, the AASB is of the view that the practitioner can fulfil his or her responsibilities relating to the translated accompanying information by performing the procedure as suggested by the respondent. Therefore, paragraph A14 was added to that effect.

##### *Clarifying the Difference in the Trigger for the Practitioner's Responsibilities*

26. Under CSOA 5000, the practitioner's responsibilities relating to accompanying information are triggered by a request to consent. This is in contrast to the practitioner's responsibilities relating to translated practitioner's communication or information on which the practitioner reported. These responsibilities are triggered when the practitioner is requested to, or otherwise becomes aware of, the use of the practitioner's communication in another language or the use of the practitioner's communication or name in connection with information on which the practitioner has reported in the original language that is translated into another language. One respondent to ED-CSOA 5000 suggested that guidance be included to highlight this difference and to explain the different triggers.
27. The AASB agreed with the respondent. Paragraph A20 of CSOA 5000 explains that the use of a translated practitioner's communication or the use of the practitioner's communication or name in connection with information on which the practitioner has reported in the original language that is translated into another language may often give the impression that the practitioner has performed work on the information in the other language. Therefore, the practitioner has responsibilities if he or she becomes aware of the use of the practitioner's communication or name in such circumstances regardless of whether the entity has requested the practitioner to provide consent.

##### *The Practitioner's Responsibilities when the Practitioner Becomes Aware of Inappropriate Use of the Practitioner's Communication or Name in the Context of Translated Information*

28. Paragraph 11 of CSOA 5000 deals with the practitioner's responsibilities when the practitioner does not consent to the use of the practitioner's communication in another language or the use of the practitioner's communication or name in connection with information on which the practitioner reported in the original language that is translated into another language. Paragraph A23 deals with inappropriate use of the practitioner's communication or name in the context of management's failure to take necessary steps to notify users in such cases. Paragraph 12 deals with inappropriate uses of the practitioner's communication or name in general.
29. One respondent to Re-ED CSOA 5000 suggested the need for the standard to clarify the differential practitioner's responsibilities between the requirement in paragraph 11 and the related application and other explanatory material in paragraph A20, and the requirement in paragraph 12.
30. The AASB noted that paragraph A20 of Re-ED CSOA 5000 likely contributed to the confusion as it stated that "if the practitioner has requested the entity to notify users that the practitioner does not consent to the use of the practitioner's communication or name, and management does not take the necessary steps to do so, this would constitute an inappropriate use of the practitioner's communication or name and paragraph 12 applies."
31. To address the respondent's concern, paragraph A23 of CSOA 5000 clarifies that paragraph 12 applies only as it relates to the requirement for the practitioner to consider whether and, if so, what further steps are to be taken.

#### **Inappropriate Use of the Practitioner's Communication or Name**

32. If the practitioner does not consent to the use of the practitioner's communication or name in connection with information in another language, paragraph 11 of CSOA 5000 requires the practitioner to request the entity to notify users of this

- fact. One respondent to ED-CSOA 5000 requested further guidance on the practitioner's responsibilities if the entity refuses to do so. Paragraph A23 clarifies that this would constitute an inappropriate use of the practitioner's name or communication.
33. Paragraph 12 of CSOA 5000 deals with the practitioner's responsibilities if the practitioner becomes aware of an inappropriate use of his or her communication or name. One respondent to ED-CSOA 5000 suggested that the practitioner has no responsibilities under paragraph 12 if there is no reference to the practitioner having performed work on the information. The AASB agreed with the respondent. Paragraph A24 clarifies this point.
  34. A number of respondents to ED-CSOA 5000 also requested additional guidance on "inappropriate use", including the practitioner's responsibilities if the practitioner becomes aware of:
    - (a) inaccurate reproduction of the information on which the practitioner has reported and/or the practitioner's communication thereon; and
    - (b) information to which the practitioner had attached a communication was issued without the communication, and the information is misleading in the absence of such communication.
  35. To improve the clarity of CSOA 5000, examples of inappropriate uses of the practitioner's communication or name are included in paragraph A25. The practitioner's professional responsibilities when the practitioner becomes aware of inappropriate uses are set out in paragraph 12, and guidance on further steps that the practitioner may take if the entity fails to take appropriate action is set out in paragraph A26.

#### **Effective Date**

36. ED-CSOA 5000 proposed that CSOA 5000 be effective as of, and be applicable to, a practitioner's consent provided on or after, June 1, 2016. In light of the delay in issuing CSOA 5000, the AASB deferred the effective date to June 1, 2017 to allow for effective implementation of CSOA 5000.

#### *Consequential Amendment to Section 7170*

37. In July 2015, the AASB issued Section 7170, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT INCLUDED IN A BUSINESS ACQUISITION REPORT. As a result, Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, was refiled under "Recently Replaced Pronouncements Still in Effect."
38. When initially issued, Section 7170, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT INCLUDED IN A BUSINESS ACQUISITION REPORT, was effective for auditor's consents to the use of the auditor's report in a business acquisition report issued on or after June 1, 2016. To align the effective date of Section 7170 with the effective date of proposed CSOA 5000, in October 2016, the effective date of Section 7170 was deferred by one year to June 1, 2017.

#### *Possible Further Deferral of Effective Dates*

39. In November 2015, the AASB issued an Exposure Draft proposing to replace extant CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, with revised CAS 720, *The Auditor's Responsibilities Relating to Other Information*.
40. Revised CAS 720, *The Auditor's Responsibilities Relating to Other Information*, clarifies that the MD&A is within the scope of the revised standard, and sets out the auditor's responsibilities relating to the MD&A in the absence of consent. Extant CAS 720 deals with the auditor's responsibilities relating to documents containing the audited financial statements. Under Canadian securities legislation, the MD&A is required by securities legislation in many Canadian jurisdictions to be filed concurrently with the financial statements but the MD&A does not technically contain, or incorporate by reference, the audited financial statements. Paragraph 3 of Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, contains a requirement for the auditor to read the MD&A in the absence of consent.
41. One respondent to ED-CSOA 5000 raised a concern that withdrawing Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, and replacing Section 5020 with proposed CSOA 5000 before the effective date of revised CAS 720, *The Auditor's Responsibilities Relating to Other Information*, could lead to a gap in the standards with respect to the requirement for the auditor to read the MD&A in the absence of consent.
42. The AASB considered whether the effective dates of proposed CSOA 5000, Section 7170, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT INCLUDED IN A BUSINESS ACQUISITION REPORT, and the withdrawal of Section 7500, AUDITOR'S CONSENT TO THE USE OF THE AUDITOR'S REPORT IN CONNECTION WITH DESIGNATED DOCUMENTS, needed to be deferred to align them with the effective date of revised CAS 720, *The Auditor's Responsibilities Relating to Other Information*. In the AASB's view, a further deferral is not necessary. As the MD&A is meant to complement and supplement the financial statements and to be read in conjunction with the financial statements, the AASB is of the view that the auditor's responsibilities relating to reading the MD&A in the absence of consent is already covered by extant CAS 720.

#### **List of Respondents to the ED-CSOA 5000 and Re-ED CSOA 5000**

Respondents	ED-CSOA 5000	Re-ED CSOA 5000
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BDO Canada LLP	v	v
KPMG LLP	v	v
Office of the Auditor General of Alberta	v	
Office of the Auditor General of Canada		v
Ordre des comptables professionnels agréés du Québec	v	v
Provincial Auditor of Saskatchewan	v	v
PwC LLP	v	v
Raymond Chabot Grant Thornton LLP and Grant Thornton LLP (joint response)	v	
Vérificateur général du Québec	v	v

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