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Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

**Re: Exposure Draft: Maintaining high standards in a global environment:
A new standard-setting approach**

Dear Mr. Shields:

As a leading accounting organization, representing the interests of 62,000 members and students nationally and internationally, the Certified General Accountants Association of Canada (CGA-Canada) continues to participate actively in the deliberation of the future of accounting, auditing, and assurance standards in Canada. Importantly, we consider it our responsibility as a professional accounting organization.

CGA-Canada appreciates the opportunity to comment on the “Auditing and Assurance Standards in Canada – Maintaining high standards in a global environment: A new standard-setting approach”. We will preface our discussion with a general comment and then proceed to provide direct comment to the specific questions posed.

General Comment

CGA-Canada, having thoroughly pondered the issue several years ago, has concluded that Canada should adopt international accounting, auditing, and assurance standards. Over the last several years, international standards have gained widespread acceptance in a number of nations. Considered to be principles-based standards, as are our own domestic standards, it is now less reasonable for Canadian standards setters to independently research, debate, and develop auditing and assurance standards.

CGA-Canada’s position on this matter is well known. We direct your attention to four previous works commissioned by CGA-Canada. The first three identified below pertain to accounting standards, while the last report deals with auditing and assurance standards. Copies of any of these documents can be made available upon your request.

- **The Case for International Accounting Standards in Canada, 1999**
- **Report to Certified General Accountants Association of Canada on Accounting Standards Setting Structures, 2003**
- **A Question of Standards: Accounting in the 21st Century, 2003**
- **The Adoption of International Auditing Standards in Canada, 2003**

A change from the current regime to the use of international auditing standards in Canada would entail some legislative changes, including revision of certain provisions of the *Canada Business Corporation Act* and of particular securities regulations. While such changes are not without cost, these are ‘one time’ costs, while the benefits will accrue over a relatively infinite period. In this regard, CGA-Canada would be pleased to work with the AASB and to provide assistance in effecting required changes.

Moreover, it is the opinion of CGA-Canada that the Canadian public would be well served if Canada moved quickly in this direction. Canadian companies, financial statement users, accountants, and auditors can likewise expect to find themselves in good stead as Canada competes for capital and market share in the global economy.

Specific questions (*italics*) as presented in the exposure draft and CGA-Canada’s corresponding responses follow:

1. **The Auditing and Assurance Standard Board’s (AASB’s) current standard-setting approach**

Do you agree that the AASB’s current standard-setting approach needs to change? If not, how would the AASB address the challenges identified in continuing with the current approach?

In short, yes. Because International Standards on Auditing (ISAs) developed by the International Auditing and Assurance Standards Board have gained widespread acceptance, it no longer makes sense for Canadian standards-setters to independently research, develop, and debate auditing and assurance standards.

On January 10, 2006, the Canadian Accounting Standards Board (AcSB) ratified its strategic plan wherein its mandate consisted of converging Canadian GAAP to International Financial Reporting Standards (IFRSs). CGA-Canada believes that a consistent approach should be taken by the AASB in relation to the auditing function. Auditing is at least, if not more important, than the development of a universal set of accounting principles and practices, as auditors interpret and enforce those accounting rules while affording also an opinion on financial representation.

It stands to reason, therefore, that the AASB is compelled to endorse ISAs; not to do so would create confusion in the marketplace.

2. **Proposal to adopt ISAs in Canada**

Do you agree that adoption of ISAs in Canada is in the public interest and will contribute to maintaining public confidence in the quality of audits undertaken here?

Yes, CGA-Canada agrees that adoption of ISAs in Canada is in the public interest. Moreover, the adoption of ISAs will help facilitate the flow of capital within and across national boundaries in the new global economy and will demonstrate Canada's penchant for transparency in the measurement and disclosure of financial performance. As a result, the level of assurance implied by an audit of financial statements in Canada would be translucent to both domestic and foreign stakeholders comprising of investors, creditors, regulators, customers, and employees.

What issues or concerns do you identify, if any, as a result of the AASB's proposal to abandon the objective of harmonizing with US auditing standards?

CGA-Canada supports the abandonment of this objective of harmonizing auditing and assurance standards with US auditing standards. US standards are typically rules-based whereas the international standards are principles based, similar to those of the Canadian marketplace. Following the ISAs is a natural progression for those familiar with the current Canadian approach.

In addition, our constituents have told us that they prefer using international standards as they are more in line with the standards they are accustomed to (i.e., these standards are mainly principles based unlike the US standards that continue to be rules based). Therefore, CGA-Canada contends that the adoption of ISAs will produce less of a convergence challenge to our practitioners.

As a user of audit services, do you have any concerns with the adoption of ISAs as regards market perception of the credibility of your financial reporting?

Any concerns are modest. To the contrary, as a result of the adoption of ISAs, the level of assurance implied by an audit of financial statements in Canada would be transparent and seen to be evident and accountable to both domestic and foreign investors, creditors, regulators, customers, and other stakeholders in the financial reporting process.

3. Application of ISAs in Canada

Do you agree that it will be necessary for the AASB to continue to set standards to address the Canadian environment, by interpreting ISAs in a Canadian context and by addressing areas not dealt with in ISAs, such as in the "Specialized areas" section of the Handbook?

CGA-Canada believes that only those "**add-ons**" discussed below in response to question number 5 are required of the Canadian environment.

For all other standards including the 'Specialized areas' sections of the Handbook, it is contended that should the Board wish to mandate these standards to Canadian stakeholders, the Board should make its case to the IAASB to have those standards adopted and published as ISAs under the authority of the IAASB. Failing that, CGA-Canada believes, with respect to those standards, that **the Board should, in the interests of transparency, provide reasons why the development of such standards might be unique to Canada when not**

deemed to be in the interest of the global economy.

Naturally, if the development of such standards is part of the IAASB work plan, the IAASB has the ability to delegate such work to other standards setters, including that of Canada. As such, CGA-Canada would support the Board's continued initiative in this regard within the due process established by the IAASB. In essence, it is the position of CGA-Canada that standards-setting should be pursued with a view only to global or international convergence, consistency, and homogeneity.

Mandating incremental standards, that are separate and apart from ISAs, has the effect of encouraging continued disparity between domestic and international reporting practices. CGA-Canada believes that to do so would purge the value and advantages of moving towards ISAs in the first place. And because such an approach would create unjustified costs while rendering financial statements incomparable from one jurisdiction to another, the nullification of the benefits of international standards would simply be accentuated.

Thus, CGA-Canada strongly urges the Board to not pursue this strategy because it is not in the long-term interest of the Canadian marketplace.

4. Proposed approach

Do you agree that the AASB should increase its efforts in influencing the IAASB to take into account the views of Canadian stakeholders?

The AASB should increase its efforts to support the IAASB as CGA-Canada has done for the past number of years. Canada has been recognized in the international community as a reputable standards setter and should make available its knowledge base and expertise to the international community. In so doing, Canada can continue to have influence in the standards-setting process.

5. Process

Do you agree with the AASB's intended change in due process so that Canadian exposure drafts will in future contain a proposed ISA verbatim, together with a limited number of add-ons to take into account Canadian conditions?

It is envisaged that at times there will be situations where a Canadian standard, dealing with the effects of Canadian law or purely Canadian economic, legislative, or regulatory issues, must be accommodated. We support that the Canadian standards setter may be required to make such adaptations, at least in the short term; however, we would suggest that these add-ons should be exposed for comment and that the relevant background be afforded. For example, the driving force for the variation might be disclosed while the pertinent legislation(s) or regulation(s) referred to so as to transparently inform constituents. And while some 'add-ons' may reasonably be in order, we would further caution that any such add-ons should ideally be kept to a minimum.

6. **Other issues**

Do you have any other comments on the AASB's proposals or on other matters referred to in this Invitation to Comment?

- The proposal states, "AASB recognizes it has a role to play in developing interpretive guidance issued under its own authority and also in supporting others in the development of implementation guidance."

Many of our constituents who have prepared financial statements based on IFRSs and, consequently, have been part of the parent who have been audited using ISAs have told us that inconsistent interpretation and inadequate training were the most significant issues experienced in migrating to international standards from current Canadian standards. With respect to interpretation, the IAASB interpretation for a particular standard might differ from the interpretation of its current Canadian equivalent, even though both are considered to be similar standards. A concern is that these differences will delay or disrupt transition and may pose unnecessary costs to Canadian entities migrating to IAASB-based standards.

To address these concerns, CGA-Canada believes that the Board should take steps to ensure convergence of interpretation in areas where interpretation differs between an IAASB standard and its current Canadian equivalent and not to develop its own interpretation or additional guidance. In considering this role, however, CGA-Canada does not see the Board's role as one to provide education or training, but rather to work with the IAASB to ensure convergence of interpretation. The responsibility for educating and training practitioners, preparers, and users with the application of ISAs is a shared responsibility with professional accounting bodies.

With respect to the development of the implementation guidance, CGA-Canada believes that the Board does not have a role to play because all of our members and students adhere to our implementation guidance of the Canadian auditing and assurance standards (i.e., *Public Practice Manual* (PPM)). CGA-Canada will continue to develop implementation guidance post-ISA adoption for its members.

- The proposed approach states, "If the IAASB decides not to take on a project of importance to Canada, or doesn't do it quickly enough, the AASB will consider dealing with the project on its own or in partnership with other standards setters. Examples of areas where the AASB might undertake its own projects are capital markets or information technology developments."

CGA-Canada would emphasize the response specifically provided above to question number 3.

- The new approach states, "The AASB's proposed new standard-setting approach would result in ... developing unique Canadian standards for non-financial statement assurance engagements when warranted ..."

CGA-Canada would reiterate the response specifically provided above to question number 3.

- The proposed approach states, “AASB will continue to develop Canadian standards for which there are no corresponding ISAs.”

Again, we would echo the response provided to question number 3 above.

- **Audit of SMEs**

On page 13, the proposal states, “For audits of small entities, the AASB will work with the IAASB and other national standards setters to develop interpretive guidance for the use of ISAs in a small business environment.” And on page 17, the proposal states, “The Handbook will contain one set of standards for audits regardless of the size of the entity being audited or the practice of performing the audit.” Because the AASB believes that an audit is an audit, in the sense that the objectives and principles are the same for all entities, it is nonetheless apparent that the AASB appreciates the need for alternative approaches, methodology, and procedures in their application.

Thus, the new approach would address the specific needs of the SMEs through an interpretive guidance. CGA-Canada would support the development of such interpretive guidance in so long as said guidance be developed by and for the ISAs and are issued under the authority of the IAASB. This is because we consider the consistent interpretation of all standards in all jurisdictions to be of the utmost importance.

CGA-Canada has, and continues, to develop interpretive and implementation guidance for its members and requires also that members adhere to such guidance.

- **Adopting International Standards on Auditing**

In adopting ISAs as Canadian standards, CGA-Canada supports the Board’s overall strategy to cease making final decisions on the technical content and timing of implementation of these standards. In the absence of a persuasive rationale, we are unconvinced that the Canadian environment requires a modified Canadian version of the international standards.

Although the Board has not enunciated its migration strategy in this proposal, CGA-Canada proposes that when migrating to international standards, the Board should replace all existing Canadian auditing and assurance standards with ISAs using a single-step approach effective on the changeover date.

The single-step approach is favoured as it is consistent with the approach adopted by other jurisdictions having already adopted ISAs (e.g., EU and Australia). Assuming that users, preparers, and practitioners are provided with an appropriate timeframe to become familiar with the new standards, and that we learn from the experiences of other jurisdictions that have adopted ISAs, the single-step approach can provide for a more efficient transition than the proposed alternatives. A single-step approach should be less burdensome than

a phased-in model as users, preparers, and practitioners are not required to adapt to a series of changes during the transition period.

➤ **Transition to International Standards on Auditing**

Regardless of which transitional approach is used to shift to ISAs, a critical aspect of the transition will be to ensure that preparers, users, and practitioners have sufficient time and support to adjust to ISAs.

In the spirit of transparency, CGA-Canada recommends that the Board expose for public comment any modifications to its plan resulting from its proposed “formal reassessment within twelve months of finalizing its approach.”

➤ **Maintaining Canada’s Standard-Setting Capability**

CGA-Canada also believes that it is important that Canada retain its own standards implementation capacity to ensure appropriate implementation of the strategy supported above. However, to ensure that auditing and assurance standards are developed in a manner that best serves the public’s interest, CGA-Canada continues to maintain that an independent body be established (similar to those in the U.K. and Australia) to oversee the alignment, implementation, and interpretation of international standards in Canada. The Canadian standards setter should be:

- independent of all parties who have an active interest in the content of accounting, auditing, and assurance standards;
- mandated by legislation;
- accountable to the public by reporting to Parliament;
- funded from multiple sources including government, industry, and the accounting profession; and,
- supportive of transparent processes intent on ensuring that all meetings are open to the public and that documents prepared by or for the standard setter are publicly available.

As the strategy proposed by the Board represents a fundamental change in the direction of the Board and standards setting in Canada, an opportunity exists during this transition period to establish a more transparent and representative standards sponsor in Canada. Although the responsibility for necessitating such a change ultimately lies with Canadian legislators, CGA-Canada believes, as a first step, that the Board within its own terms of reference and through communication with its Auditing and Assurance Standards Oversight Council, can take appropriate action to ensure its operations are transparent and are conducted in the best interests of the public. This could include holding public meetings, and publishing agenda and background materials.

In particular, and consistent with the view that auditing and assurance standards belong in the public domain, the Board must ensure that access to auditing and assurance standards is not impeded. CGA-Canada anticipates that with the move to adopt the ISAs developed by the IAASB, the Board’s proposed strategy should have a positive impact on the cost and accessibility of Canadian standards to Canadian users.

We would again thank the Board for the opportunity to participate in the discussions surrounding the future directions of auditing and assurance standards in Canada. We believe that after consideration of the recommendations herein presented and through other stakeholders, the Auditing and Assurance Standards Board will have an effective strategy for maintaining the quality auditing and assurance standards we have come to expect. We look forward to reviewing the Board's final plan and to providing comment on any revised strategies arising from its reassessment/checkpoint review.

Should you wish to discuss or require elaboration on any of the items presented above, please do not hesitate to contact Rock Lefebvre at rlefebvre@cga-canada.org or Amar Goomar at agoomar@cga-canada.org.

Sincerely,

[Original signed by:]

Anthony Ariganello, FCGA, CPA (Delaware)
President and CEO