



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

150 YORK STREET, SUITE 200, BOX 90
TORONTO, ONTARIO M5H 3S5
TÉL 416.913.8260 FAX 416.850.9235
WWW.CPAB-CCRC.CA

August 23, 2007

Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, ON
M5V 3H2

Dear Mr. Shields:

Re: Exposure Draft (ED), Overall Objectives of the Independent Auditor...

The Canadian Public Accountability Board (CPAB) is pleased to comment on the above ED.

General comments

Generally, we agree with this ED, but we have commented to the IAASB on several issues (see attached) and we comment below on its conversion into a CAS.

We agree with the need to amend the proposed ISA to account for the difference relating to ethical and independence standards. However, we believe further amendments are warranted in this and other recent EDs, as we have commented in previous responses.

We understand the changes to existing Canadian requirements in the *Summary of Significant Changes* and, subject to comments below, support them.

Comments relating to aspects of this ED that would reduce existing Canadian standards

We understand the criteria for making changes to ISAs for Canadian purposes. We also understand the IAASB's concern that if each country makes additions or amendments the standards will no longer be international. Nevertheless, as indicated in our response to previous EDs, CPAB is very concerned when adopting proposed ISAs will significantly reduce existing Canadian requirements. The following are examples in this ED:

1. Paragraph A20 appears to allow substantive procedures performed in prior periods to be used as audit evidence. At the very least, this should be clarified and restricted. It is appropriate, for example, to count on the fact that opening fixed asset balances were verified in the previous year; it is inappropriate to assume that because accounts receivable balances were confirmed last year confirmation does not need to be repeated this year. As reported to the IAASB, absence of clarification on this point could be very damaging.
2. Paragraph A44 says “Unless otherwise stated in the ISA, the auditor is permitted to apply an ISA before the effective date specified therein.” We strongly oppose early application because in the transition period it will permit auditors to early adopt what they like and not what they don’t. A Canadian firm may, for example, adopt standards that reduce existing standards before adopting those that enhance them. Also, there are some cases where individual existing requirements have been dropped pending inclusion in another forthcoming standard. We believe early adoption should be prohibited in Canada, even if it is not prohibited by the IAASB, to whom we have made the same point. Of course, if a firm chooses to add to its own audit requirements to incorporate specific additional requirements in advance of the effective date, this is desirable, but CPAB intends to hold firms to the existing standards until the effective date of the new ones.

Comments relating to matters in the ISA ED that are not applicable or need to be amended or explained in the CASs

CPAB also believes it is inappropriate to include in a CAS content that will confuse or mislead Canadian practitioners and others who use Canadian auditing standards, or otherwise need adapting. The following are examples in this ED:

1. Dropping the term Generally Accepted Auditing Standards (GAAS)
There is a large body of literature, regulation and statute that uses the term GAAS. Has the AASB considered all the implications? The solution would appear to be quite simple. In the introduction to the CASs it could be stated that the content represents Canadian GAAS. That would solve the problem. However, we believe the AASB should obtain legal advice on this issue.
2. Note 2 to paragraph 4 should be dropped. It is irrelevant in Canada.

3. Fair presentation and compliance frameworks
Paragraph 16 defines these two concepts. The definitions are very obscure, to the extent that we are still not sure which of the two frameworks currently applies in Canada. We made this point in prior responses to CASs.
4. Handbook of International Auditing, Assurance, and Ethics Pronouncements
In A52, there is reference to this document. Either the document will need to be incorporated into Canadian standards, or some other reference substituted.
5. Canadian GAAP issues
Paragraph A4 needs to refer to an appropriate GAAP Hierarchy until such time as it is replaced by IFRS. The ED also refers to industry practice, which is no longer allowed in Canadian GAAP.
6. Use of the term "users"
In referring to the objective of an audit in paragraph 9, and elsewhere in this ED, users seem to be considered rather broadly. While we have no objections to this, we wonder how it relates to Canadian jurisprudence on the responsibilities of auditors to users.

The solution to these issues is to provide additional explanatory comment in the CAS or elsewhere, or to delete irrelevant and confusing comment, neither of which in any way compromises the integrity of the ISA.

If you wish to discuss any of the above comments please contact David Selley at CPAB (416) 913-8260 extension 4153.

Yours truly,



Keith Boocock
Chief Executive Officer