CSA ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

November 22, 2013

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue 6th floor
New York, New York 10017
U.S.A.

Cc: Canadian Auditing and Assurance Standards Board

**Subject:** **<u>Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs) – Exposure Draft (ED)</u>**

Dear IAASB Members:

The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Ontario, Quebec, Alberta and British Columbia. We are submitting this letter to you in response to the *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs) Exposure Draft*.

We appreciate the opportunity to comment on the ED, given the significant impact that these proposals would have on auditor reporting. We acknowledge the IAASB's goal of improving the auditor's report to provide relevant information to users based on the audit that was performed. Page 7 of the ED states that "the IAASB is of the view that changes in auditor reporting may have positive benefits to audit quality or users' perception of it. This in turn may increase the confidence that users have in the audit and the financial statements which is the public interest." Such potential benefits are very difficult to measure and compare to anticipated and potential costs. We continue to monitor Canadian stakeholders' views on the benefits and costs. That assessment will likely take some time and is of particular interest to the CSA because securities legislation in Canada specifies the auditing standards that must be used to audit the financial statements of public companies, investment funds, and registered brokers and dealers. Meanwhile, we offer some observations and suggestions about the proposals in the ED.

<u>Scope of Key Audit Matters</u>

The IAASB is proposing in paragraph 4 of ISA 701 that reporting on key audit matters (KAMs) apply to *listed entities.* The Glossary of Terms applicable to ISAs defines listed entity as "An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange, or other equivalent body." Currently ISA 700 applies to all audits of financial statements and does not include requirements that only apply to listed entities, or any other category of entities. Securities legislation in Canada generally requires public companies, investment funds and registered brokers and dealers, regardless of whether or not they are listed on stock exchanges, to have their annual financial statements audited in accordance with Canadian Generally Accepted Auditing Standards (CGAAS), which is based on ISAs. We are concerned that if Canada adopts the proposed standard with the scope criteria of “listed entities”, this would result in inconsistency and confusion among users of the auditor reports in the Canadian marketplace.

The costs and benefits of the KAM requirements need to be further understood in order to determine the appropriate scope for these requirements. Given the large number of small Canadian public companies and registered brokers and dealers, we continue to be concerned that the costs of applying the KAM requirements may exceed any potential benefits.

<u>Threshold for Key Audit Matters</u>

The definition of “key audit matters” in paragraph 7 of proposed ISA 701 includes the phrase “of most significance in the audit”. The word “**most**” implies that an auditor must always identify a KAM. Further, paragraph A47 of ISA 701 states that "it is expected to be **rare** that the auditor of financial statements of a listed entity would not determine at least one key audit matter" and proposes language for inclusion in an auditor’s report if the auditor determined there are no KAMs.

We do not agree that it would rare for an auditor to conclude there are no “areas of significant auditor attention” including matters described in items (a),(b) or (c) of paragraph 8 of proposed ISA 701. For example, many Canadian listed entities are in the development stage and their primary activities are raising financing, and exploring for resources or doing research and development work. In auditing these entities, an auditor may not identify significant risk, exercise significant judgment, encounter significant difficulties during the audit, or have to significantly modify their planned audit approach. We strongly recommend removing the reference to “most” in the definition of KAMs and in the disclosure requirements in paragraphs 9 and 13 of proposed ISA 701. We also strongly recommend revising paragraph A47 to remove the reference to “rare” and to acknowledge situations where an auditor may conclude there are no KAMs to report.

<u>Going Concern</u>

We question the usefulness to readers of the boilerplate language proposed in paragraph 20 of proposed ISA570 (revised) where no material uncertainty has been identified. Under existing ISA 570, an auditor includes disclosure relating to the going concern assumption only when a material uncertainty exists; this approach draws attention to uncertainties. We are concerned that including a “going concern” section in every auditor’s report may dilute readers’ attention to the matters reported in that section.

We are also concerned that the proposed statements about going concern may provide inappropriate comfort to users about the quality or appropriateness of the entity as a potential investment.

The IASB is planning to issue an ED in Q1 of 2014 of proposed changes to disclosure requirements relating to the assessment of going concern. We appreciate the reference on page 31 (paragraph 84) of the ED to deferring the finalization of auditor reporting related to going concern in the final wording of ISA 570 until the IASB incorporates any IFRS changes into IAS 1. It is critical that accounting and auditing related to going concern are consistent to avoid any potential investor confusion.

Emphasis of Matter and Other Matters

We think ISA 706 should require (not just encourage) an auditor to include a heading for an EOM or Other Matters paragraph that provides context. The terms "Emphasis of Matter" and "Other Matters" on their own without further context are too broad given the introduction of KAMs.

Convergence with U.S. Public Company Accounting Oversight Board (PCAOB) proposals

We urge the IAASB to work with the PCAOB to converge auditor reporting requirements. Given the connections between capital markets, including the existence of many cross-border issuers and cross-border industry peer groups, we think that users of auditor's reports are best served by consistent, or very similar, auditor reporting standards. Similarly, we encourage the convergence of mandatory effective dates for the final standards.

Mandatory effective date

We recognize that the IAASB has been working with auditors to field test these proposals. We strongly support this type of testing. We encourage the IAASB to take the appropriate time to complete the field testing and to incorporate recommendations coming from the tests. We also ask for sufficient lead time for auditors and those charged with governance and management to prepare for the implementation of the final standards.

We would be pleased to discuss any questions you may have about our letter. Please do not hesitate to contact us.

Yours truly,

**The CSA Chief Accountants Committee**


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