

December 13, 2021

Submitted electronically

Mr. Thomas R. Seidenstein, Chair
International Auditing and Assurance Standards Board

Dear Mr. Seidenstein,

Response to the International Auditing and Assurance Standards Board's (IAASB) exposure draft, proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities

The Canadian Public Accountability Board (CPAB) is Canada's independent audit regulator responsible for overseeing firms that audit Canadian listed entities. Our mandate is to promote high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

CPAB is pleased to respond to the IAASB's exposure draft: proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE, or Exposure Draft).

Overall comments

We have given due consideration to the Exposure Draft and propose the IAASB reconsider the decision to issue a new standard. Our position considers the significant time investment by the IAASB compared to the public interest benefit expected from the creation of a separate standard for less complex entities. Our concerns regarding the creation of a separate standard include:

- Adequacy of a standalone ISA for LCE.
- Undermining professional responsibility.
- Unintended consequences of a separate ISA for LCE standard.
- Diminishing ISA clarity.

The background material in section one of the Exposure Draft cites that more than 90 per cent of entities across the world are small and medium-sized; some regions estimate that the percentage could be higher. This could be interpreted to suggest that the ISAs are not fit for purpose for more than 90 per cent of the audits conducted worldwide and the ISA for LCE will be the standard used for most audits once finalized. We are concerned the ISA for LCE will be used by a very large group of entities, many of whom are not necessarily less complex.

Auditing is a profession that requires significant skills, training and standards. We do not think it is unreasonable to expect skilled auditors to read and understand the existing standards, while acknowledging that some aspects will not be applicable for less complex entities.

While we previously expressed concern about the amount of time spent on standards development for very small entities (for example micro audits that result in fees of less than \$5,000), we are very concerned about the sweeping applicability of this proposed standard.

Adequacy of a standalone ISA for LCE

Our view is that the proposed standard does not provide enough guidance to auditors and will therefore result in a deterioration of audit quality.

ISA 200, paragraph 19 states that “the auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly”. The purpose and relevance of application and other explanatory material is explained further in A59. This raises the following concerns on the standalone nature of the ISA for LCE:

- How an auditor of an LCE will understand and apply the ISA for LCE without a full understanding of the ISAs. The requirements in the ISAs are included almost in their entirety but presented in a different format and exclude large portions of the application and other explanatory material. One example is the exclusion of the application guidance on substantive analytical procedures. Auditors have experienced challenges related to substantive analytical procedures. It is unclear why this additional application guidance was not considered necessary for auditors using the ISA for LCE to understand the objective and apply the requirements properly.
- If an auditor determines that the ISA for LCE is not appropriate during the audit because matters of complexity not contemplated by the proposed standard have arisen, the auditor is required to transition to the ISAs or other applicable auditing standards. We are concerned auditors will not be able to identify such situations without understanding the ISAs.

Expanding the ISA for LCE to include group audits would amplify our concerns over the adequacy of the standalone nature of the ISA for LCE.

Undermining professional responsibility

A professional accountant must comply with the principle of professional competence and due care; they are required to attain and maintain professional knowledge and skills to ensure they provide competent services based on current technical and professional standards. There is a risk that the issuance of the ISA for LCE undermines the professional responsibilities as required by subsection 113, professional competence and due care of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. This may negatively impact the ability of practitioners in smaller firms to perform quality audits.

Unintended consequences of a separate ISA for LCE standard

Users of the financial statements may perceive two audit categories, leading to unintended consequences to the issuance of the ISA for LCE as a separate standard that may not have been fully explored by the IAASB:

- Different firms and/or jurisdictions may interpret the acceptability of using the ISA for LCE differently for entities with similar characteristics. This may contribute to confusion for users of the financial statements and undermine the objective of achieving global consistency.
- Switching to the ISAs partway through an audit when unforeseen circumstances arise may take longer than if the ISAs were applied from the start with no additional benefit. This will also add complexity for private companies audited using the ISA for LCE who later become public and may need to transition to the ISAs for multiple years.

Diminishing ISA clarity

Creating a separate standard specific for less complex entities may lead to diminishing clarity of the ISAs among auditors, specifically in understanding the scalability of the standard. The concerns about the increasing complexity of the ISAs are not problems that can be limited to audits of less complex entities. We believe that the use of complex language may contribute to the perception that the standards themselves are overly complex. The Complexity, Understandability, Scalability and Proportionality (CUSP) project is focused on drafting principles for the ISAs to reduce their complexity. Applying and building on the drafting principles in the CUSP project, with additional focus from the IAASB on the understandability of the proposed standards, may help auditors better understand how the standards are scalable and eliminate the need to have a separate standard for audits of LCEs while improving the quality of ISAs. The ISAs that have been recently issued by the IAASB (e.g., ISA 315, ISA 540, ISQMs) contain some provisions regarding the graduation of the application of the standards in less complex entities. In our view the CUSP project will enhance future revisions of the ISAs.

Closing remarks

The IAASB has invested significantly in the development of the ISA for LCE which may be taking time away from other projects with a higher public interest benefit. This could delay completing existing projects and/or negatively impact the sufficiency of resources to start new projects.

Should the IAASB decide to proceed with issuing a final ISA for LCE standard, the scope of the standard should not include listed entities, entities who may plan to become listed or group audits.

If you have any questions or wish to discuss any of our observations in more detail, please contact me (carol.paradine@cpab-ccrc.ca) or Stacy Hammett (stacy.hammett@cpab-ccrc.ca).

Yours truly,



Carol A. Paradine, FCPA, FCA
Chief Executive Officer

cc: Bob Bosshard, Chair of the AASB