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Submitted electronically

Auditing and Assurance Standards Board (AASB)

Bob Bosshard, AASB Chair

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Response to AASB Exposure Draft – Proposed Narrow-scope amendments to CAS 700, Forming an Opinion and Reporting on Financial Statements and CAS 260, Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities

CPAB is Canada’s independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. Our mandate is to promote high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

CPAB has reviewed the exposure draft and contributed to the International Forum of Independent Audit Regulators (IFIAR) response to the exposure draft submitted directly to the International Auditing and Assurance Standards Board. We expressed support for the IAASB’s initiative aimed at enhancing the requirements in ISA 700 (Revised) and ISA 260 (Revised). We also supported the revisions in the ISAs to allow for compatibility or operationalize the changes to the IESBA Code of Ethics that require a firm to publicly disclose when a firm has applied the independence requirements for Public Interest Entities (PIEs). These efforts represent a step forward to enhancing confidence and public trust in the profession. The IFIAR response also highlighted areas where the proposed requirements could be strengthened. This included support for a non-conditional requirement to be included in ISA 700 (Revised) for the following reasons:

- A non-conditional requirement in ISA 700 (Revised) to disclose the specific independence requirements the audit complied with, including which version of those independence requirements was applicable, would provide the greatest level of transparency for users of the financial statements to understand the independence standards that were applied.
- There are differences in independence requirements across jurisdictions. These variations may occur due to jurisdictions that have additional local requirements or because there is a delay between when IESBA finalizes a standard and when it is fully adopted. Even where the auditor’s report is issued in a jurisdiction that has fully adopted the IESBA Code of Ethics, it is possible that the definition of what constitutes a PIE can vary among jurisdictions. Auditors may be required to comply with multiple independence requirements from different sources and with different versions of those requirements when performing an audit of financial statements.

- Disclosure of the independence standards applied by the auditor could still be made for all entities without disclosing confidential plans of the entity by only requiring the disclosure of the minimum ethical and independence standards the firm is required to comply with in the performance of the audit. For example, when an entity is planning an initial public offering, the auditor would be required to report compliance externally with the non-PIE independence requirements (minimum level required), even though in practice the PIE independence requirements would have been applied where the audit firm planned to continue as the entity's auditor. Such a requirement should also allow the auditor to optionally disclose additional independence standards applied (i.e., independence standards the auditor has voluntarily complied with).

We also recommended aligning the proposed ISA 260 (Revised) application material on disclosing which independence requirements were applied to the requirements in ISA 700 (Revised). Specifically, we believe the proposed amendments to the application material of ISA 260 (Revised) may not, in all circumstances, achieve the desired increase in transparency. This is because proposed paragraph A29 of ISA 260 (Revised) states that the disclosure may include which independence requirements were applied, including whether differential independence requirements were applied; however, it does not require such a disclosure. In contrast, the proposed amendments to ISA 700 (Revised) would require the auditor to include in the auditor's report where differential independence requirements were applied where such a disclosure is required by the relevant ethical requirements. The information reported to those charged with governance should be at least equivalent to information required to be disclosed in the auditor's report.

In addition to the topics covered in the IFIAR response, we appreciate the opportunity to comment on the AASB's proposed Canadian amendments. We are concerned that the AASB's position taken in the exposure draft will not provide sufficient transparency to readers of the audit report regarding the independence requirements that were followed by the auditor. We believe this is important information for users of financial statements and is in the public interest. At a minimum, should the IAASB proceed with the conditional requirement the AASB should explore whether additional transparency can be achieved in the auditor's report in Canada while remaining consistent with existing Canadian Codes of Conduct/Ethics (Canadian Codes).

The IAASB and IESBA have been working to modernize the auditing and independence standards, and these amendments are critical to complying with the ISAs and to promoting a firm quality culture.

We encourage the AASB to actively collaborate with the Public Trust Committee (PTC) as they work to modernize the Canadian Codes. Recent amendments to the IESBA Code and ISAs are designed to serve the public interest by ensuring the IAASB standards operate in harmony with the IESBA Code, and without conflict. It is imperative that the AASB evaluate the cumulative impact of amendments to the IESBA Code that have not yet been reflected in the Canadian Codes on the application of the CAS by Canadian audit practitioners. Differences identified that may impact the application of the auditing standards in Canada need to be formally brought to the attention of the PTC and Auditing and Assurance Standards Oversight Council (AASOC) in a timely manner.

We would also encourage additional information be included in future AASB exposure drafts to help respondents understand the current state of the existing Canadian Codes and the impact on the application of the CAS.

CPAB looks forward to ongoing discussions and consultation on these topics. If you have any questions, please contact me (carol.paradine@cpab-ccrc.ca) or Stacy Hammett (stacy.hammett@cpab-ccrc.ca).

Yours truly,



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