



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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February 1, 2016

Eric Turner  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Eric:

**Re: Invitation to Comment – Implementation Considerations for New Auditor Reporting Standards**

The Canadian Public Accountability Board (CPAB) is pleased to respond to the Invitation to Comment on the Auditing and Assurance Standards Board (AASB)'s "Implementation considerations for New Auditor Reporting Standards".

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 reporting issuers' financial reporting. We accomplish our mandate by inspecting audit firms and audit working paper files which provides us with insights into the application of auditing standards and how they might be improved.

CPAB previously sent a letter on this topic dated September 22, 2015. The letter is a supplement to that letter.

In the AASB's considerations of the next steps in its auditor reporting project, we encourage the AASB to consider developments in other countries in this area, a few of which are noted below.

**Disclosure of other audit firms participating in the audit**

In December 2015 the PCAOB adopted a rule (subject to SEC approval) that requires audit firms to disclose the name of the audit engagement partner as well as information related to other audit firms that participated in the audit (including the names of audit firms that took part in 5% or more of the total audit hours). While the IAASB's auditor reporting standards requires disclosure of the name of the audit partner, the IAASB standard does not provide for disclosure of other audit firms that participated in the audit.

The audit of operations in foreign jurisdictions, many of which include significant involvement of component auditors, remains an area of concern for CPAB as highlighted in our recent public reports. The level of involvement by the component auditor is not transparent to a user of the financial statements and audit report.

This issue is of particular importance to CPAB because, while we have finalized memoranda of understanding in a number of foreign jurisdictions, we still face limitations in accessing component audit work in certain others. We continue to engage with the relevant Canadian securities regulators to make the changes necessary to assist CPAB in obtaining access in order to fulfill our mandate of regulating participating firms.

We believe disclosure of other audit firms involved in the audit would be useful to investors in better understanding the audit.

### **Materiality**

Audit reports in the United Kingdom are also required to include an explanation of how the auditor applied the concept of materiality in planning and performing the audit, including specifying the threshold used in calculating materiality.

The IAASB's audit reporting standard does not require the disclosure of materiality in the audit report.

Disclosure of materiality in the UK audit reports appears to have led to increased dialogue with investors and other users. Citi Research in the UK has published a number of reports that provided observations from their review of the audit reports. Each of these reports included an evaluation of the ranges of materiality used across the companies reviewed which appears to highlight the importance of this dialogue with investors and other users.

We believe a discussion of materiality in the auditor's report may help to improve the overall dialogue on how an audit is performed and improve the dialogue on audit quality issues with investors and other users.

We would be pleased to discuss further any of the above comments.

Yours very truly,



Brian Hunt, FCPA, FCA, ICD.D  
Chief Executive Officer

cc. Cathy MacGregor, CPA, CA  
Chair, Auditing and Assurance Standards Board (Canada)