



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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April 4, 2014

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017  
USA

Dear Sir:

**Re: The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016**

The Canadian Public Accountability Board (CPAB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB's) Consultation paper "*The IAASB's Proposed Strategy for 2015-2019*" and "*The IAASB's Proposed Work Program for 2015-2016*".

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.

We commend the Board's priority to strengthen relationships with international regulators and audit oversight bodies. We believe it is important to collaborate to improve audit quality.

We believe the proposed strategy needs to better concentrate the IAASB's vision and key strategic priorities. The proposed strategy should focus less on operational matters and more on the strategic challenges facing the profession. For example, rapid changes in the business landscape and the use of technology has led stakeholders to question the relevance and value of the audit. It is not clear in the proposed strategy how the IAASB intends to respond to these challenges. In the short term, to respond to increased globalization and the expanded use of estimates and fair values in financial statements, the Board's work plan should include an immediate focus on group audits and the audit of accounting estimates. We also believe an effective work plan should support practitioners in the application and implementation of new and existing standards on a timely basis and in the public interest.

**Strategy**

We believe the proposed strategy should be forward looking and aspirational with a clear view for the end state in 2019. Important aspects of the strategy should include:

- The approach to identifying and responding to emerging issues to ensure auditing standards remain relevant in a changing environment;
- Key principles to be used to determine how projects are prioritized;
- Defining the planned efforts and amount of time to be spent by the IAASB in monitoring adoption of standards and responding to concerns about the implementation of standards; and
- The approach to working with stakeholders in identifying issues including projects to be added to the Board's agenda.

### **Response to Urgent Implementation Issues**

CPAB is concerned the proposed strategy will mean important issues that need to be addressed in the public interest will not be responded to on a timely basis, including those issues identified as part of the IAASB's post-implementation review of the clarified ISAs. We find it unacceptable that the IAASB has not included a project to revise ISA 600 as an immediate priority given the issues raised by audit regulators globally and the high risk to the public interest. Further we are concerned that, at the international level, the IAASB has no rapid response mechanism to address standards implementation and application issues.

We believe audit quality would be enhanced through a more balanced approach that includes:

- Amendments to auditing standards where the requirements are not clear or do not address important issues; and
- Development of application or implementation guidance where, in applying the requirements of an auditing standard, the work effort is either not understood and/or is not being consistently performed.

We expand on each of these items below.

#### *Amendments to Auditing Standards*

We believe there is a need for an approach to include targeted and full scope projects to amend existing auditing standards including:

- Projects to make targeted amendments where a limited number of significant changes have been identified with respect to a specific auditing standard; and
- Full scope projects to make significant changes where numerous issues have been identified with respect to a specific auditing standard.

We believe it is critical to develop a mechanism that would support targeted, limited scope changes that can be made on a timely basis to respond to an urgent need while retaining appropriate due process. We encourage the IAASB to consider the annual improvements

process used by the International Accounting Standards Board (IASB) as a process to explore in developing a model to make targeted amendments to auditing standards. We believe a number of issues highlighted by the IAASB's post-implementation review of the clarified ISAs provide an effective starting point for initial issues that could be included in an annual improvements project.

#### *Application and implementation guidance*

The Consultation Paper outlines the IAASB's principal areas of focus to include (1) Developing standards; (2) Monitoring and facilitating the adoption of standards; and (3) Responding to concerns about the implementation of standards. The Consultation paper contains a detailed work plan outlining standards to be amended or developed; however, the work plan does not contemplate actions to facilitate the adoption and implementation of standards. There needs to be greater alignment to the resources allocated between the three principal areas of focus.

Based on the result of our inspections and feedback received from practitioners, we believe there is an important need to provide practitioners with guidance to address areas where the work effort for an existing requirement is not well understood and/or is not consistently applied. We encourage the IAASB to take a lead in developing this guidance internationally. The absence of coordinated action at the International level will lead National Standard Setters and/or National audit regulators to be compelled, in the public interest, to issue guidance locally leading to a fragmentation of application guidance for international auditing standards.

In our view, this application guidance could be developed using a variety of methods and by various parties including task forces made up of National Standard Setters and IAASB staff with appropriate input from independent audit regulators.

#### **Allocation of and sufficiency of IAASB resources**

We understand the IAASB's strategy has been developed with consideration of the current capacity of the Board and IAASB staff.

It is important for the IAASB's work plan to identify and appropriately prioritize critical projects with the greatest public interest. If current resources are constraining the IAASB's ability to complete urgent projects, we believe that IFAC and the Public Interest Oversight Board should consider the way the IAASB is funded and operationalized to consider ways that its resources could be increased.

As discussed above, we believe the response to these issues could take a number of different forms including full scope or limited scope amendments to existing auditing standards and/or development of application or implementation guidance developed together with other parties including National Standard Setters.

## **Near term priorities**

Based on the results of our inspections, we believe the IAASB should place priority attention on projects to revise ISA 600 and ISA 540.

### *ISA 600, Audits of Group financial statements*

CPAB and a number of audit regulators around the world have raised issues with respect to the auditing standard on group audits including as part of the post implementation review of the clarified ISAs. We recognize that a project to amend ISA 600 has been included on the proposed work plan with information gathering in 2015 and 2016 and the commencement of a project in 2017. We are concerned this timeline will delay issuance of a final standard until 2020 or 2021 given the Board's expectation that a project may take in excess of 36 months to complete. In CPAB's view, this timing is unacceptable given the risks to investor and the public interest.

This issue will only continue to grow in importance as the trend to globalization accelerates.

### *ISA 540, Auditing Accounting Estimates*

Many of the deficiencies in our inspection of audit files relate to the audit of estimates. We believe the complexities in this area will continue as accounting standards place increasing emphasis on fair values. A significant focus is required on a project to consider ISA 540 with a focus on clarifying the expected work effort and providing guidance to improve the application of professional scepticism.

### *Planned Project on Professional Skepticism*

Professional scepticism is a recurring issue in our inspection of audit files. Accordingly, we support consideration of how professional scepticism can be improved. We believe that professional skepticism would be more consistently applied if guidance on professional skepticism is embedded into those ISAs that address the audit of transactions and balances subject to significant judgment and estimation on the part of management.

In our view, rather than a separate project on professional scepticism, it may be more beneficial to include a consideration of professional scepticism in key auditing standards projects. In the short term this would include considering professional scepticism in projects on auditing accounting estimates and on the Special Audit Considerations relevant to Financial Institutions.

## **Response to changing trends and emerging issues**

The Consultation Paper makes reference to the IAASB's INFO Working Group which is used to identify and discuss emerging issues. The current activities of this working group appear to be

focused on Integrated Reporting. Given the rapidly evolving business landscape, we believe the IAASB (either through the INFO working group or another applicable group) should also be focused on considering the impact of changes in the environment and ensuring that current auditing standards remaining relevant in a changing world. This includes changes to how audits are performed such as the use of offshoring or centres of excellence, the evolution to a business environment that is more reliant on information technology and the impact of evolving technologies on audits including the use of data analytics and cloud computing. These changes should be researched as they are likely to transform the audit, impacting what is audited and how an audit is conducted with implications for education, hiring, training, standards and the value of the audit.

We believe it is important for the IAASB to research emerging issues and identify those areas where auditing standards need to be created or amended to remain relevant. The IAASB's agenda needs to retain flexibility to allow time for these issues.

In concluding we again appreciate the opportunity to provide input on the IAASB's Proposed Strategy and work plan.

In addition to our comments above, our responses to the questions posed in the Consultation Paper are included in the Appendix to this letter.

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

Yours very truly,



Brian Hunt, FCPA, FCA  
Chief Executive Officer

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

Mr. Greg Shields, CPA, CA  
Director, Auditing and Assurance Standards  
Chartered Professional Accountants of Canada

## **APPENDIX Questions**

### ***Proposed Strategy for 2015–2019***

**The IAASB is particularly interested in respondents' views on:**

**(a) Whether the strategic objectives identified are considered appropriate for the period 2015–2019. If not, please explain.**

We believe the proposed strategy should be forward looking and aspirational with a clear vision for the end state in 2019. Important aspects of the strategy should include:

- The approach to identifying and responding to emerging issues to ensure auditing standards remain relevant in a changing environment;
- Key principles to be used to determine how projects are prioritized;
- Defining the planned efforts and amount of time to be spent by the IAASB in monitoring adoption of standards and responding to concerns about the implementation of standards; and
- The approach to working with stakeholders in identifying issues including projects to be added to the board's agenda.

**(b) Whether the factors included in Appendix 2 on page 19 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the *Work Program for 2015–2016*.**

The factors identified in Appendix 2 represent a reasonable basis for developing the work programs.

### ***Proposed Work Program for 2015–2016***

**The IAASB is particularly interested in respondents' views on:**

**(a) The approach taken to the development of the *Work Program for 2015–2016*, in particular the IAASB's decision to focus on fewer key projects towards the goal of their completion by 2017.**

We are concerned the proposed strategy will mean that important issues will not be responded to on a timely basis, including those issues identified as part of the IAASB's post-implementation review of the clarified ISAs. We find it unacceptable that the IAASB has not included a project to revise ISA 600 as an immediate priority given the issues raised by audit regulators globally and the high risk to the public interest. Further we are also concerned that, at the international level, the IAASB has no rapid response mechanism to address standards implementation and application issues.

We believe audit quality would be enhanced through a more balanced approach that includes:

- Amendments to auditing standards where the requirements are not clear or do not address important issues; and
- Development of application or implementation guidance where, in applying the requirements of an auditing standard, the work effort is either not understood and/or is not being consistently performed.

**(b) The appropriateness of the topics chosen as the focus for the *Work Program for 2015–2016* (see paragraph 4 of the *Work Program* and Table A on pages 26–29) in light of the strategic objectives set out in the IAASB's *Strategy for 2015–2019*.**

As noted in the introduction to this letter, it is critical that the IAASB include projects to focus on ISA 600 (Group Audits) and ISA 540 (Accounting Estimates) in its work program for 2015 and 2016.

We believe it is also important for the IAASB to research emerging issues and identify those areas where auditing standards need to be amended to remain relevant. The IAASB's agenda needs to retain flexibility to allow time for these issues.

**(c) Whether there is an action(s) or project(s) that has not been included in the *Work Program for 2015–2016* that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 (on pages 39–41) be prioritized sooner? If so, which initiative(s) identified in Table A (on pages 26–29) do you believe should be replaced by this action(s) or project(s). Please provide an explanation of your views.**

In considering the proposed projects, rather than a separate project on professional scepticism, it may be more beneficial to include a consideration of professional scepticism in key auditing standards projects. In the short term this would include considering professional scepticism in projects on auditing accounting estimates and on the Special Audit Considerations relevant to Financial Institutions.

We also encourage the IAASB to consider alternative approaches to ensure all projects that are in the public interest receive an appropriate focus. We believe this would include pursuing targeted amendments to existing standards or issuance of application and implementation guidance where this is in the public interest.

**(d) Whether there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on**

**a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards.**

As noted above, we believe the IAASB should consider alternatives that can achieve the objective of developing and maintaining high quality ISAs. This could include making targeted amendments to the standards and directing the issuance of application and implementation guidance.

We encourage the IAASB to work with National Auditing Standard setters to obtain support for priority projects and to determine where the involvement of IAASB Board Members can be limited such as initial research on current projects as well as the issuance of application and implementation guidance.

It is important for the IAASB's work plan to identify and appropriately prioritize critical projects with the greatest public interest. If current resources are constraining the IAASB's ability to complete urgent projects, we believe that IFAC and the Public Interest Oversight Board should consider the way the IAASB is funded and operationalized to consider ways that its resources could be increased.