



December 20, 2007

Mr. Jim Sylph, CA
Executive Director, Professional Standards
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Mr. Sylph:

Exposure Drafts - ISA 220 and ISQC 1

The Canadian Public Accounting Board (CPAB) is the oversight body for firms that audit Canadian public companies. To be accepted by Canadian securities regulatory authorities, auditors' reports on public companies must be signed by a firm in good standing with CPAB.

CPAB is pleased to respond to the above Exposure Drafts (EDs).

The clarification process has, in our view been carried out effectively on an overall basis. However, we have several comments on the result of clarification, including matters that have been brought to light arising from the fact that ISQC 1 will be applied in a variety of regulatory environments.

We note abundant use of the word "may" and, even worse, "may consider" throughout these EDs. If the circumstances in which these terms are used clearly result from the availability of choices set out in the text, or are obvious from the context, usage is appropriate. However, in many cases this is not the case. The "may" would seem to give free reign to an auditor to do something or not, according to whim (or budgetary pressures). We believe this is inappropriate in a professional standard. An example of an appropriate use of the word can be found in paragraph A19 of ISQC 1. An entirely inappropriate usage occurs in A20; there is no circumstance in which all the bulleted items will not apply. Other selected examples are set out in the comments below.¹

Explanatory Memorandum

Reference	Comment
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¹ Further examples of inappropriate use of "may" or "may consider" occur in ISA 220 paragraphs A6, A7 A13 and A18 and in ISQC 1 paragraphs A9, A16, A23, A26, A40, A43 (penultimate line), A61 and A62,

Authority	We agree that no provision need be made for a departure in this case.
Issue date	Unless the issue date is defined as being the same as the reporting date (with which we would not agree), we believe dropping reference to the issue date is highly inappropriate. The issue date is critical because up to that time the auditor is able to withhold or alter the opinion, perform more work or insist that the financial statements be modified. The fact that the term “issue date” is undefined in <i>Handbook of International Auditing, Assurance, and Ethics Pronouncements</i> is a reflection on that document that need not be perpetuated in ISQC 1.
Engagement team	<ul style="list-style-type: none"> • The driving force behind the definition of engagement team should be the IAASB, not the IESBA. We believe it is important to include in the definition internal experts on the engagement team and external experts when they are part of the team. This will be a question of fact. Sometimes, external experts are not part of the team. When an expert is engaged by the client and the auditor uses the expert’s report as audit evidence, the expert is not in any way part of the engagement team, any more than a party that responds to an accounts receivable confirmation. When an expert is part of the engagement team, the expert’s working papers will be part of the audit file; when the expert is not part of the team the only documentation that will appear in the engagement team working papers will usually be the expert’s report and all communications between the auditor and the expert, as required by ISA 620. • It is not clear from the definition whether members of network firms, or other offices of the same firm in the same or different jurisdictions, who participate in the engagement are part of the engagement team. It should be clarified that they are.
Criteria for requirements	In general, we believe the criteria have been applied appropriately, but see below for several exceptions.

ISQC 1

Reference	Comment
<i>Definitions</i>	
Network	<ul style="list-style-type: none"> • The definition has changed very significantly from the existing definition in ISQC 1. • We believe the concept in the existing definition that informed users would reasonably conclude as being part of the firm

	<p>nationally or internationally should be retained.</p> <ul style="list-style-type: none"> We also believe that the existence of any one of the conditions set out in 6(j)(ii) would result in the other firm being a network firm. Perhaps this is intended, but it should be clarified by inserting the word “any of” after “aimed at” on line one.
Listed entity	<p>This is a term that is usually defined by regulation or statute. Therefore the broadest possible term should be used. <i>Public company</i> is probably the broadest term. Individual countries may use their own term.</p>
Staff	<ul style="list-style-type: none"> Why is <i>staff</i> limited to <i>professionals</i>, itself an undefined term? <p>Engagement teams frequently contain members who are not professional accountants, or indeed professionals of any kind in the accepted sense of the term. The firm and the engagement partner are both responsible for the conduct of such persons, including their independence.</p> <ul style="list-style-type: none"> Does “employ” mean <i>use or hire as an employee or on contract</i>? It makes a difference.
Engagement documentation	<p>In 12(a), the term <i>practitioner</i> is used. If used, we recommend that it should be defined.</p>
<i>Paragraph #</i>	
20 and 21	<p>As indicated in paragraph 21, it is important that commercial considerations not override quality. However, this should also apply, perhaps even more so, to performance evaluation, compensation and promotion (including incentive systems), as set out in paragraph 20.</p>
24 and A4 to A6	<p>Compliance with ethical requirements (paragraph 24) is of critical importance. We believe the key elements of A4 through A6 should be incorporated into this paragraph.</p>
28 and A7	<p>We believe the annual confirmation should cover all ethical requirements (such as confidentiality and code of conduct) as well as independence.</p>
35 and A20 to A24	<ul style="list-style-type: none"> The assessment of capabilities and competence should also apply to partners. Accordingly, the word “personnel” should be used in the first sentence, rather than “staff”. Partner competencies are covered in 36(b), but there is no specific requirement for an assessment process. We believe this requirement needs to be enhanced by the inclusion

	<p>of at least paragraph A20. The lead in says policies and procedures “may” address the eight bulleted elements; we can see no situation where they would not all be relevant.</p> <ul style="list-style-type: none">• We also believe that material in A22 and A23 deserves to be promoted to a requirement.
37	Assignment of personnel should include network firm personnel as well.
A42 to A45	<ul style="list-style-type: none">• A 42 requires (by use of the word “would”) that the engagement quality control reviewer have sufficient and appropriate experience and “authority to act as an audit engagement partner on audits of financial statements of listed entities”. The equivalents in proposed ISA 220.6(c) and ISQC 1.12(d) do not contain the phrase quoted above. We think this is sufficiently important that the language in A42 should be included in ISA 220.6(c) and ISQC 1.12(d).• We believe A44 is too weak, especially the phrase “may include”. The first and third bullets are particularly important and at least these should be moved up into paragraph 47 as a requirement.• In A44 and A45(c), there should be criteria for selection rather than simply leaving it to the whim of the reviewer. One solution would be to refer to “critical” or “key” working papers. It should also be clarified that the engagement quality control reviewer should review working papers for all judgments that have a material impact on the financial statements.
52 and A50	We believe a specific time period should be a requirement, rather than in application and explanatory material and that the period should be no more than 45 days, rather than 60.
51 to 61	The intent of paragraph 62 relating to monitoring by network firms is unclear. It is also repetitive or paragraph 58 with respect to the reporting of deficiencies (except for the addition of the word “promptly”). CPAB suggests that in paragraph 55 it be stated that the monitoring may be performed by either the firm or by representatives of a network firm. The requirements for monitoring set out in paragraphs 55 through 61 would then apply to both situations. There could then be a paragraph 62 to deal with special considerations that may arise when monitoring is performed by a network firm representative. These might include a requirement that an overall network report be issued that summarizes the results overall and by country. The key risk in this area is that a firm will rely on quality controls of a network firm without knowing of any deficiencies that might exist.

ISA 220

Reference	Comment
Objective	<p>We have no problem with the substance, but the wording is strange. The “objective of the auditor” is set out in ISA 200. The objective in ISA 220 should relate directly to the engagement partner and to quality control. Paragraph 1 correctly states that the ISA “deals with the specific responsibilities of firm personnel regarding quality control procedures”. We suggest:</p> <p style="padding-left: 40px;">The objective of the engagement partner is to ensure that appropriate quality control procedures are implemented at the engagement level to obtain reasonable assurance that the audit complies with the firm’s quality control policies and procedures.</p>
Definitions	See comments on ISQC 1 above.
IFAC Code. A4	“Include” should be replaced by “consist of”.
Review A 12	All seven bullets should apply to review, although any particular reviewer might not cover all seven. To clarify that in any engagement review should cover all seven bullets and be promoted to a requirement. Accordingly, A12 could read “Review shall consist of consideration whether: ...”
Consultation. A14	The lead in should be strengthened to read “Effective consultation ... cannot be achieved unless those consulted: ...”

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If you wish to discuss any of the above comments please contact David Selley at CPAB
(416) 913-8260 extension 4153.

Yours truly,

A handwritten signature in black ink, appearing to read "K. Boocock". The signature is written in a cursive style with a long, sweeping underline.

Keith Boocock, CA
Chief Executive Officer

cc. Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
Canadian Institute of Chartered Accountants