



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

150 York Street, Suite 200, Box 90, Toronto, Ontario M5H 3S5
Tel 416.913.8260 Fax 416.850.9235 www.cpab-ccrc.ca

April 4, 2011

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

Dear Sir:

Re: Proposed IAASB Strategy and Work Program for 2012-2014

The Canadian Public Accountability Board (CPAB) is pleased to comment on the International Auditing and Assurance Standards Board's (IAASB's) proposed strategy and work program for 2012-2014.

CPAB is Canada's independent audit regulator responsible for overseeing audit 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.

The clarified International Standards on Auditing (ISAs), which Canada has adopted, are effective for audits of financial statements for periods beginning on or after December 15, 2009. CPAB believes the ISA Implementation and Monitoring project should be the IAASB's top priority in its proposed work program for 2012-2014. It is critical for this project to identify implementation challenges that may warrant either the revision or development of ISAs or the issuance of guidance to promote more effective and consistent implementation of the ISAs. The IAASB needs to ensure it devotes appropriate resources within its work program to respond to these challenges on a timely basis.

While CPAB understands the demand to develop new and innovative assurance and related services standards, the global financial crisis has increased the focus on the role of the auditor and the value of the audit. In recognition of the IAASB's limited resources we believe there

should be greater strategic focus in the work plan on maintaining and developing high quality auditing standards that strengthen public confidence in financial reporting.

We have responded below to the questions posed by the IAASB in the consultation paper:

Do the IAASB’s three areas of strategic focus noted in paragraphs 7-11 remain appropriate?

Overall, we believe that the IAASB’s three areas of strategic focus remain appropriate, although as noted above, there should be a greater focus in the work program on maintaining and developing high quality auditing standards before initiating projects which broaden the scope of assurance services provided by auditors. We also encourage the incorporation of performance measures even if they are primarily qualitative in nature to assist with more effective implementation of the work program. We would also suggest that the third strategic focus, described in paragraph 7(c) of the consultation paper, should make reference to activities designed to improve both the “effectiveness” as well as the consistency with which standards are applied in practice and also the enhancement of the application of professional skepticism. Insufficient exercise of professional skepticism by auditors is a concern that we, and many other audit regulators, have raised. CPAB believes greater strategic focus on the auditor application of professional skepticism in the development of auditing standards and related guidance would improve audit quality.

As noted above, while we understand the demand to develop new and innovative assurance and related services standards we believe the primary strategic focus must remain the development and effective implementation of the ISAs.

Does the list of anticipated projects likely to commence in 2012-2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:

i. Do respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project would not be supported;

We support the undertaking of the anticipated projects outlined in the consultation paper but question whether, given the significant challenges in revising extant ISAE 3400, *The Examination of Prospective Financial Information* (project B.3), it is feasible to adequately consider this project within the time frame of the current work program.

ii. Do respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and

We believe that the anticipated projects are consistent with the IAASB's three areas of strategic focus.

iii. How should these anticipated projects be prioritized in light of the current projects (Column A)?

We believe that project B.1, responding to the findings of the ISA Implementation Monitoring project, should be given the highest priority to ensure the ISAs remain relevant high quality audit standards. As a result we would also give project B.4, developing materials aimed at addressing ISA implementation challenges, high priority to promote effective and consistent application of the ISAs.

With respect to the additional projects (Column C):

i. Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012-2014 (Column B); and

Of the suggested additional projects in Column C, we would strongly encourage the IAASB to move forward with project C.1 to develop guidance to replace that in extant IAPS 1006; *Audits of the Financial Statements of Banks* (see comments below with respect to prioritization). We believe there is merit in exploring how audit procedures applied to banks may be strengthened in areas such as risk assessment, valuation and going concern assessments.

ii. Whether any particular project(s) in Column C would not be supported?

We do not believe that any of the suggested projects in Column C are inappropriate for the IAASB to pursue, but given the limitations on the resources available we believe the issue is one of prioritization. We have identified below the top three additional projects we believe would best meet the IAASB's public interest mandate.

We would also recommend that should project C.7 to redraft ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* be considered the scope should be amended to include a revision as well as a redraft of the standard. While the consultation paper notes that a substantial revision of ISRE 2410 would not be contemplated as it is generally used in practice without significant difficulties we believe that the project

should also consider the effectiveness of the standard in meeting the expectations of stakeholders before concluding that a revision is not necessary.

What additional actions or projects do respondents believe should be addressed and how should they be prioritized in relation to the projects identified in Columns B and C?

We believe the following two additional projects should be addressed:

Engagement Quality Control Review

We believe the Engagement Quality Control Reviewer (EQCR) has a critical role in building quality into the audit process and can play a significant role on the resolution of major issues encountered by engagement teams. International Standard on Quality Control (ISQC) 1 requires an engagement quality control review for all audits of financial statements of listed entities and also outlines the procedures the EQCR must perform. In performing inspections CPAB has found the application of the EQCR requirements by many firms to lack effectiveness and rigour. The EQCR requirements in ISQC 1 need to be strengthened and we encourage the IAASB to initiate a project to enhance the effectiveness of the EQCR taking into consideration the US Public Company Accounting Oversight Board's new Auditing Standard No. 7 (AS 7), *Engagement Quality Review*. AS7 requires greater evidence of the EQCR's involvement in the audit engagement and specifically requires the EQCR to provide concurring approval before the audit report can be issued.

Auditor Communication with Financial Statement Users

The global financial crisis has led some stakeholders to question the value of the audit. In our view, auditors need to share more information related to the audit process and the key audit risks and related findings with users of the financial statements. Much of this information is currently only provided to senior management and the audit committee. We believe it is worth undertaking a project to explore whether users of financial statements would also find some of this information helpful in their decision making. For example, a commentary on critical accounting policies and alternative policies available, the going concern assumption and related key assumptions and assumptions used in key accounting estimates, such as impairment assessments and valuations of financial instruments for which quoted prices are not readily available, might be of interest to financial statement users. It will be important, however, to ensure that such communication does not lead to less forthright and transparent dialogue between the auditor and those charged with governance, which could have a negative impact on audit quality.

Select the top three projects either from, or in addition to, the list of suggestions for additional projects (Column C) that respondents believe would best meet the IAASB's public interest mandate.

We believe the top three projects should be:

1. Engagement Quality Control Review
2. Project C.1 to develop guidance to replace that in extant IAPS 1006, *Audits of the Financial Statements of Banks*
3. Auditor Communication with Financial Statement Users

Which one project (either from Column B, Column C or an additional action not included in either column) would respondents identify as the IAASB's top priority, in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program?

We believe that project B.1, Undertake new project(s) to respond to the findings of the ISA Implementation Monitoring project, should be the top priority as it spans all three areas of the IAASB's current strategic focus.

What types of publications or further implementation guidance may be of most use to facilitate the adoption and implementation of the IAASB's pronouncements?

In addition to matters discussed above in relation to specific projects, other guidance that would facilitate the adoption and implementation of the IAASB's pronouncements would be guidance on the application of the ISAs in the context of an audit of small and medium-sized entities (SME). Many auditors struggle with effectively applying the requirements of the ISAs to SMEs in a relevant and cost-effective manner and so guidance of this nature would contribute to improved audit quality with respect to these entities.

What opportunities may exist for the IAASB to partner with others to facilitate implementation of the clarified ISAs (for example, IFAC member bodies, NSS, training organizations, and others)?

As noted in the consultation paper, the ISA Implementation Monitoring Task Force is currently liaising with the International Forum of Independent Audit Regulators (IFIAR) to explore mechanisms by which IFIAR, or its members, may be able to provide information obtained from national inspection programs that will assist the IAASB in improving its auditing standards and hence audit quality. We believe that IFIAR and its members have unique insights into the

application of auditing standards and so would strongly encourage the IAASB to continue to seek input from that stakeholder group.

CPAB appreciates the opportunity to provide input to the IAASB on the proposed IAASB strategy and work program for 2012-2014.

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

Yours very truly,



Brian Hunt, FCA
Chief Executive Officer

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