

February 18, 2016

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Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington street West
Toronto ON M5V 3H2

Subject: Auditing and Assurance Standards Board Draft Strategic Plan 2016-2021

Dear Auditing and Assurance Standards Board (AASB) Members,

The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Alberta, British Columbia, Ontario and Quebec. We are submitting this letter to you in response to the Invitation to Comment on the *Auditing and Assurance Standards Board Draft Strategic Plan 2016-2021*.

We appreciate the opportunity to comment on the Draft Strategic Plan. We have responded to most aspects of the plan within the attached Appendix, and we offer the following key concerns that the AASB should consider when finalizing its strategic objectives and actions.

Canadian Amendments to International Standards on Auditing (ISAs)

We agree that the AASB should continue to adopt ISAs as Canadian Auditing Standards (CASs) with amendments only in limited circumstances. We also are supportive of amendments that meet the needs of the Canadian marketplace and harmonize with Canadian securities regulations. In particular, when there are defined terms within the ISAs that do not align with Canadian securities regulations, the standard should be amended for an appropriate Canadian context. An example of this is within the new auditor reporting standards which use the term 'listed entity', which is not a commonly used term under Canadian securities regulatory filing and disclosure requirements. It is important that the AASB strongly consider Canadian securities regulations when deciding whether an ISA needs amendment.

Application of Amendment Criteria

We recommend a distinction between *performance* standards and *reporting* standards when considering amendments. We believe that it is important for auditors to continue to apply the *performance* standards with minimal amendments to the originating ISA. However, there may be more instances where it is appropriate to consider amendments to *reporting* standards. We think that there are factors in regards to the Canadian environment that the

AASB should consider when applying the amendment criteria to *reporting* standards, such as the integration of Canada's capital markets with U.S. markets and Canadian securities legislation.

Activities of the U.S. Public Company Accounting Oversight Board (PCAOB)

Since the Canadian and U.S. capital markets are closely linked, any significant difference in the two auditor reporting regimes could be perceived negatively in Canada. If an auditor could no longer express compliance with both Canadian and U.S. standards in one report, we think this would result in further inconsistency in auditor reporting by Canadian reporting issuers. It is important for the AASB to remain responsive to standards proposed by the IAASB and the PCAOB to maintain this comparability of auditor reports.

We have provided more detail on each of these key concerns within the attached Appendix. If you have any questions about this letter, please do not hesitate to contact us.

Yours truly,

The CSA Chief Accountants Committee

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Appendix – Detailed Responses to the AASB’s Draft Strategic Plan 2016 - 2021

Question 1. Do you agree with the AASB’s mission and vision statements as described in this Draft Strategic Plan?

We agree with the AASB’s mission to continue to set standards and guidance, and assist in their implementation, to maintain high-quality and effective auditing, other assurance and related services in Canada.

Question 2. Do you agree with the AASB’s strategic objectives as described in this Draft Strategic Plan?

We agree with the overall objective to maintain a globally respected Canadian standard-setting capability that identifies and responds to the needs of Canadian stakeholders. The AASB should continue to set, and assist with the successful implementation of, standards and guidance relevant to audits, other assurance and related services. We also agree the AASB should substantially increase efforts to achieve a high level of stakeholder engagement with respect to developing standards and guidance.

Question 3. Do you agree with the AASB’s proposed strategy and actions related to maintaining a globally respected Canadian standard-setting capability? If so, are there aspects that you think should be emphasized?

We agree with the proposed strategy and related actions to meet this strategic objective. We think that to maintain a globally respected Canadian standard-setting capability, it is important for the AASB to have continued involvement with, and influence on, the projects of the International Auditing and Assurance Standards Board (IAASB). This is an area which should be emphasized as part of the AASB’s planned actions.

Question 4. Do you agree with the AASB’s proposed strategy and actions related to increasing stakeholder engagement? How important is it that the AASB focuses on stakeholder engagement as a strategic objective? Are there other actions the AASB may undertake that would result in increased or more effective stakeholder engagement?

We agree with the AASB’s proposal to implement new strategies and actions to actively engage more stakeholders in the standard-setting process to ensure feedback received on activities is not limited to one group of stakeholders. We suggest that to successfully engage stakeholders, the AASB should take a targeted approach to purposefully engage with those stakeholders who will be most impacted by a particular standard or guidance. While the views of a variety of stakeholders are important, a targeted outreach to key stakeholders for a particular issue would be more beneficial to the AASB decision-making process.

For example, an outreach program for proposed *performance* standards would be more effective if auditors, audit committee members, and regulators were targeted over financial statement preparers. For proposed *reporting* standards, an outreach program would extend to a larger group of key stakeholders, including end users who can provide valuable input on the benefits of reporting requirements.

Question 5. Do you agree with the AASB's proposed strategy and actions related to the development of standards for audits of financial statements?

We agree that the AASB should continue to adopt ISAs as CASs with amendments only in limited circumstances that meet specified amendment criteria. We think that ISAs provide comprehensive, high-quality auditing standards that help safeguard the integrity of a reporting issuer's financial statements. The AASB should continue to consider each ISA on an individual basis to assess whether Canadian circumstances indicate the need for amendment. Where proposed amendments to ISAs are a substantial change to the current CASs, we support the proposal for the AASB to take more time than its previous goal of three months to carefully consider implications of the proposed standards with the engagement of stakeholders.

In general, we do not recommend different *performance* standards for audits of smaller entities as compared to larger entities. We also believe that circumstances would rarely indicate the need for amendments to *performance* standards from the originating ISA and it is important for auditors to continue to apply the *performance* standards with minimal amendments to the originating ISA. However, there may be more instances where it is appropriate to consider amendments to *reporting* standards. We believe there is a distinction between *performance* standards and *reporting* standards. We think that there are factors in regards to the Canadian environment that the AASB should consider when applying the amendment criteria to *reporting* standards, for example, integration of Canada's capital markets with U.S. markets and Canadian securities legislation.

The AASB should give greater weighting to the interconnectedness of Canada's capital markets with U.S. markets when developing standards, applying amendment criteria, and determining effective dates and implementation plans. Cross border issuers constitute a large proportion of the Canadian marketplace in terms of market value. If there are significant differences between the ISAs and the PCAOB standards, the AASB should consider the need for additional Canadian amendments.

Securities regulation currently permits cross border issuers to have audits performed in accordance with either Canadian generally accepted auditing standards, PCAOB standards, or both. This provision has been relevant to users in our marketplace, and there is no current mandate to amend these regulations. Any change that puts the standards further apart will lead to auditors no longer being able to express compliance with both Canadian and U.S. standards in one report. Cross border issuers may choose not to apply Canadian generally accepted auditing standards *in order to avoid the reporting requirements in Canadian standards*. A significant decrease in the use of Canadian standards could be perceived to diminish the relevance of Canadian standards and result in a lack of comparability of reports within Canada. The AASB should further assess these risks and consider the impact on investors and other stakeholders.

We note that where defined terms in the ISAs are not commonly used in the Canadian environment, the standard should be amended for an appropriate Canadian context. An example of this would be in the new auditor reporting standards (including ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* and ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*). These new

auditor reporting standards differentiate between requirements for an auditor's report on financial statements of a 'listed entity' and the requirements in relation to unlisted entities. This term is not commonly used to differentiate public reporting requirements in the Canadian environment and securities regulatory filing and disclosure requirements, which uses the term "Reporting Issuer". This would be an example where the AASB could remedy this with a Canadian amendment, applying criterion #3 in the AASB's amendment criteria.

Question 6. Do you believe that the AASB should consider changes to its criteria for making amendments to the ISAs when adopting them as CASs, or to how the AASB applies these criteria? If so, why?

We do not believe there is a need to change the amendment criteria, but as discussed above, we believe the AASB should carefully consider the Canadian environment when assessing the need for amendments to *reporting* standards.

We note that for criterion #1, the AASB will limit additions to an ISA to those required to comply with Canadian regulatory requirements. We agree with this criterion, and think that Canadian securities regulatory requirements should be a factor in determining whether an amendment to an ISA will be made. We have noted particular instances where there is a defined term within the ISA which does not correspond to Canadian reporting requirements (refer to Question 5 with respect to 'listed entity' compared to 'reporting issuer'). In these particular instances, we urge the AASB to consider amendments.

While we agree with criterion #3, the AASB may want to consider adding clarification on how it applies this criterion. We feel that it is important for ISAs to be amended to reflect circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada. The CSA would be supportive of the AASB applying factors relevant to Canadian context when assessing whether an amendment is necessary for *reporting* standards. Refer to the response in Question 5.

Question 7. Do you agree with the AASB's proposed strategy and actions related to the development of standards for engagements other than audits of financial statements?

We agree with the AASB's proposed strategy and actions related to the development of standards relating to engagements addressing capital market issues.

Question 9. Do you agree with the AASB's proposed strategy and actions related to assisting practitioners in the successful implementation of standards?

We agree that the AASB should provide more non-authoritative guidance to illustrate the application of the ISAs in a Canadian context, and help practitioners implement the standards and apply them in a consistent manner. We believe it is important that this information originates with the AASB, as this will maintain the high quality of materials available to stakeholders, and mitigate the risk that other organizations may publish materials that are not consistent with the views of the AASB.