

May 9, 2019

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Auditing and Assurance Standards Board
277 Wellington Street West
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Subject: Comments on the Exposure Draft on Proposed Canadian Auditing Standard *Communication of Key Audit Matters (KAM) in the Auditor's Report*

The Canadian Securities Administrators Chief Accountants Committee appreciates the opportunity to comment on the Auditing and Assurance Standards Board Exposure Draft on Proposed Canadian Auditing Standard Communication of Key Audit Matters in the Auditor's Report (the Exposure Draft).

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 (CAC) is comprised of the Chief Accountants from the provinces of British Columbia, Alberta, Ontario and Quebec.

Question 1 – *Do you agree with the proposed scope of the revisions to the requirements to communicate KAM in the auditor's report? If not, why not?*

While we agree that a response is needed to address the potential inconsistent auditor reporting for investment funds discussed on page 3 of the Exposure Draft, we do not agree with the AASB's proposed approach to address this inconsistency.

The PCAOB auditor reporting standard finalized in 2017 does not require communication of critical audit matters for audits of investment companies, other than business development companies. The PCAOB release¹ stated that "*several commenters on the proposal noted that an investor's decision to invest in an investment company is primarily based on the investment objectives, risks, performance and fee, and critical audit matters are not expected to provide information about these items and therefore would not be relevant*". The PCAOB release also notes that since investment companies have specific investment mandates that are disclosed in a prospectus and rarely change, "*this creates the potential for critical audit matters of investment companies to become excessively repetitive, making them uninformative*".

The purpose and structure of investment funds in Canada is substantially similar to investment companies that are not subject to critical audit matter reporting in the United States, and National Instrument 81-106 *Investment Funds Disclosure (NI 81-106)* requires

¹ PCAOB Release No. 2017-001 The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards.

similar information to be disclosed on a continuous basis to facilitate investor decision making (e.g., the fund's investment objectives and strategies, results of operations and selected prescribed financial highlights). As a result, we think the comments in the PCAOB release are applicable when considering whether to require KAM reporting for investment funds that are listed entities.

Furthermore, investment funds in Canada that are listed entities are subject to liquidity restrictions set out in National Instrument 81-102 *Investment Funds*, which result in a substantial majority of such investment fund's investments and investment transactions being recorded based on quoted market prices from an active market. As a result, a listed investment fund's operations, including performance and management fees, do not involve significant management judgement for reporting purposes or the need for significant auditor judgment.

In considering the information noted above, we do not think the AASB has presented sufficient evidence to support that it is in the public interest to require KAM reporting for investment funds that are listed entities. Furthermore, we are not aware of any evidence to support that it is in the public interest to require 3,400 unlisted investment funds, (a population more than five times larger than the listed investment fund population) to comply with KAM reporting.

Contrary to the AASB's conclusion, we do not think evidence shows that the communication of KAM for investment funds, both listed and unlisted, enhances audit quality, potentially enhances financial reporting, or that any potential benefit for investor decision making will outweigh the costs to prepare such disclosure. We also do not think the alignment of auditor reporting with international standards, and other jurisdictions that adopt ISAs, is a sufficient basis to conclude that it is in the public interest to require listed investment funds to comply with KAM reporting.

We recommend that all investment funds that comply with NI 81-106 be scoped out of the KAM reporting requirements. As a result, all investment funds that are listed entities would not be required to comply with KAM reporting.

Questions 2 – is there a need for guidance to assist stakeholders with implementing the new requirements? If so, please explain

We think there is a need for guidance to help stakeholders implement the new requirements for other-than-TSX-listed entities. In addition to guidance for auditors, it will be important for the Board to consider the need for guidance to help those responsible for approving an entity's financial statements.

Many entities listed on exchanges other than the TSX (i.e. "venture issuers" as defined in securities legislative requirements) tend to be early stage in their operations. Management and those charged with governance prioritize efforts on raising capital and operations. While there are requirements under securities legislation relating to the financial literacy of audit committee members, in our experience, many members may not have an assurance background and may need more guidance on the application of the new KAM requirements and how they impact them in their role.

Many smaller venture issuers are sensitive to audit costs. To alleviate some of the initial costs and time for auditors developing KAM, we support guidance in the form of examples with sample wording for particular fact patterns. We also have heard from auditors that it would be helpful to have guidance on circumstances when no KAM are required to be communicated in the auditor's report.

Question 3 – *Does the effective date provide enough time to implement the new requirements?*

The Exposure Draft proposes to expand the requirements for auditors to communicate KAM for audits of entities listed on exchanges other than the TSX effective for audits of financial statements for periods ending on or after December 15, 2021. The Exposure Draft notes that a delay of more than one year is contrary to the public interest. We do not agree.

We recommend the Board defer the effective date for these entities to financial periods ending on or after December 15, 2022. The additional year will be important in educating stakeholders of the entities listed on exchanges other than the TSX. In particular, an extra year would:

- Provide adequate time for guidance to be developed
- Allow additional time for audit committee and other Board of Director members to become familiar with the KAM reporting requirements
- Allow auditors to consider the experience of TSX-listed entities. The “Canadian experience” is important based on the large number of small entities, scattered across numerous industries and exchanges, and the large number of regional and local audit firms who audit these listed entities.

Other comment

We note that in the third paragraph of Background section, the Exposure Draft states that entities listed on the TSXV, NEO and CSE would meet the definition of a listed entity for the new auditor reporting standard. In Canada, entities are listed on various other exchanges including, for example, the Frankfurt Exchange or the London AIM Exchange. We suggest that in future publications, the Board clarify that these exchanges are presented as examples only, and that audits of all entities that meet the definition of a “listed entity”, as per the Glossary of Terms in the CPA Canada Assurance Handbook, would be subject to the requirements to communicate KAM in the auditor's report.

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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