

# Exploring Standard-Setting Options for Audits of Less Complex Entities

**Responses to Audits of Less Complex  
Entities – Discussion Paper**

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September 2021

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**CPA Ontario Small and Medium Practices Advisory Committee**

*Less Complex Entities Focus Group*

c/o Chartered Professional Accountants of Ontario

130 King Street West, Suite 3400 PO Box 358

Toronto ON M5X 1E1

Email: [smpac@cpaontario.ca](mailto:smpac@cpaontario.ca)

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December 10, 2021

Eric Turner, FCPA, FCA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto ON M5V 3H2

Via email: [eturner@aabscanada.ca](mailto:eturner@aabscanada.ca)

Dear Mr. Turner

We welcome the opportunity to submit this comment letter regarding the Auditing and Assurance Standards Board ("AASB") Discussion Paper *Exploring Standard-Setting Options for Audits of Less Complex Entities*.

We are members of a focus group of CPA Ontario's Small and Medium Practices Advisory Committee. The Small and Medium Practices Advisory Committee provides a forum for identifying and addressing the common needs of members in small and medium practices and promotes the interests of members in small and medium practices within the overall profession.

Our focus group consists of members of the committee who conduct audit engagements for a wide range of entities within small and medium sized practices. As a result, we are very familiar with the challenges encountered in applying Canadian Auditing Standards to the audits of less complex entities.

Please find following our comments in response to the Discussion Paper.

Sincerely,

Celia Meikle, CPA, CA  
Corey Houle, CPA, CA  
Igor Kostiuoutchenko, CPA, CA  
Jennifer Chowhan, CPA, CA

## Public interest considerations

- 1 We agree with the concerns stakeholders raised in the AASB’s previous consultations in paragraph 8 and with the public interest considerations in paragraph 9. With respect to the public interest considerations in paragraph 9, we believe an additional consideration is as follows:
- a) LCEs have, by their very nature, a limited control environment. When practitioners apply the full breadth of CAS to LCE engagements, there is a risk that more engagement hours are spent analyzing non-existent / immature controls instead of a more targeted focus on controls that are utilized by management. Being mindful of the economic constraints identified in ¶9(b), it would be of credit to broader public interest if practitioners allocated additional engagement hours on bona-fide control activities rather than documenting the absence of alternative control activities.

### Option 1 – Separate standard for LCE audits

- 2 (a) With regard to question 4, we do not agree with the specific prohibitions of:
- (i) A group audit as the audit of a group [A.7(d)] is not, by itself, an indicator of complexity.
- (ii) An entity whose function is to provide post-employment benefits [A.7(c)(iii)], as several pension plan entities are not inherently complex. These entities habitually involve a pension plan administrator / custodian, and the majority of their operations revolve around basic record-keeping, receiving and remitting payments, and re-reporting financial results of said administrator / custodian.
- 2 (b) We are unable to comment on whether ED-ISA for LCE includes sufficient EEM to help an auditor perform a high quality audit. This determination can only be made by applying the full standard to an LCE audit in practice.
- 2 (c)(i) With regard to transitioning between ED-ISA for LCE and the ISAs:

We do not agree with the view in paragraph 131 that it should be relatively rare for an audit of an entity to need to transition, after engagement acceptance or continuance, from using ED-ISA for LCE to using the ISAs. We believe, in the case of less complex entities, management and those charged with governance may not possess the knowledge or skill necessary to recognize that a transaction or group of transactions would be regarded as complex. The practitioner, despite their best efforts in planning, may not be made aware of transactions that could create complexity. Thus, it would likely not be relatively rare to encounter the need to transition from ED-ISA for LCE to the ISAs.

While the qualitative characteristics identified in A.8 and A.9 are overly broad, and open to practitioners’ professional judgment, certain routine events might trigger a transition after the acceptance / continuance decision.

For example, the “entity’s accounting estimates are subject to a higher degree of estimation uncertainty or the measurement basis requires complex methods that may involve multiple sources of historical and forward-looking data or assumptions” [A.9] could be triggered by having management perform a forecast for confirming the going concern assumption.

### Option 1 – Separate standard for LCE audits (cont'd)

2 (c)(i) Continued...

Another example is when the “entity’s business activities... result in pervasive risks that increase the complexity of the audit, such as when the entity operates in new or emerging markets, or entities in the development stage” [A.9] – for instance [A.9] could be triggered when the entity enters a new market (a routine transaction for growth enterprises) or start-up enterprises shifting from development to operations (which may be ambiguous at the acceptance / continuance phase).

Ultimately, we would anticipate a mid-engagement transition to be significantly more frequent when taken into consideration of the clientele serviced by our Committee’s constituents. Considering that the standard is targeted at these constituents, it is imperative to consider that LCEs are much more prone to variability in those qualitative considerations than non-LCEs.

2(c)(ii) No, we do not support the premise in paragraphs 26 and 133 that relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE to address circumstances not contemplated in ED-ISA for LCE.

Just as there is a GAAP hierarchy available for practitioner reference in Canada, we believe there should also be an assurance hierarchy and practitioners should be able to make reference to the full CASs, when appropriate, in the professional judgment of the practitioner.

Without having a bridge back to the full CASs, we believe practitioners would be reluctant to adopt ED-ISA for LCE as the risk of having to re-perform audit planning would be too great.

Furthermore, in ¶133, it states that “While the presence of one ‘complexity’ characteristic exhibited by an entity does not necessarily exclude the use of ED-ISA for LCE for that entity, it would not be appropriate to continue performing the audit under the proposed standard if the complex matter or circumstance identified has not been contemplated in the design of ED-ISA for LCE”. Performing audits inherently requires applying professional judgment to address unexpected or unusual fact patterns. It is unworkable to limit the application of the standard to only those situations that are contemplated therein.

In addition, practitioners would be exposed to regulatory risk related to their choice of assurance framework. We believe the existence of these risks would be a significant barrier to LCE audit practitioners in their decision to adopt the ED-ISA for LCE standard.

2(c)(iii) We believe there is a need for transitional provisions if an entity goes out of scope of the LCE standard, such that transition is not punitive to the entity or practitioner. For example, we believe there should be ‘exit ramps’ to the full CASs for entities that are no longer in scope to a separate standard for LCE audits. We believe paragraph 139, if it were to stay as written, would be prohibitive to apply and result in few practitioners electing to utilize the standard.

### **Option 1 – Separate standard for LCE audits (cont'd)**

- 3 (a) Yes, we believe practitioners will be able to use the proposed standard in the Canadian environment.
- 3 (b) We believe the scope of a separate standard for LCE audits in Canada should exclude entities that utilize IFRS and PSAB accounting frameworks.
- 3 (c) We do not believe specific monetary thresholds are appropriate criteria to determine the complexity of an entity. Considering the objective of adopting a standard that would benefit from widespread application, numeric thresholds would take away proper application of a practitioner's professional judgment. For example, if a quantitative threshold contemplated the number of entity employees, some logically-sound exceptions could include: (a) numerous warehousing / delivery full-time employees that would count as employees but, otherwise, would not materially increase risk; or (b) many subcontractors serving as key management of the entity which would not count as employees but would increase risk. We believe professional judgment should be permitted to be applied in establishing whether an entity is an LCE and that application is documented in the engagement file.
- 4 (a) We believe the proposed separate standard should be integrated with the CASs and therefore the audit report should remain unchanged and still indicate that the audit has been performed in accordance with CASs. This would avoid any perception issues on the part of users of the financial statements. We believe the choice of assurance framework utilized should be the choice of the practitioner, in their professional judgement. In our view, whether the full CASs or an LCE standard are utilized, it should result in a high-quality audit that provides reasonable assurance.
- 4 (b) We believe that performing an audit under the proposed standard would be a better experience for clients and practitioners than performing an audit under the CASs. For instance, we anticipate the efficiency of not being required to ask redundant questions and complete redundant documentation under the proposed standard. We also anticipate the efficiency of not being required to perform walkthroughs of control design and implementation when taking a substantive approach. If entities are able to have a better experience overall, it may result in more entities selecting an audit engagement, even when it is not a requirement. If practitioners are able to have a better experience overall, it may result in more small and medium practitioners electing to continue to perform audit engagements rather than leaving this area of practice. It is in the public interest that audit engagements are accessible to less complex entities at a reasonable cost and that an adequate supply exists of small and medium practitioners who are willing to perform these audit engagements.
- 4 (c) We believe further guidance, training and tools would all be necessary implementation supports initially and on an ongoing basis. In particular, Professional Engagement Guide checklists adapted to the proposed standard would be necessary.

### **Option 1 – Separate standard for LCE audits (cont'd)**

5. Yes, we believe that a separate standard for LCE audits for use in Canada is an appropriate solution. However, we believe this standard should also be contained within the CASs such that reference can be made to other CASs to address circumstances not contemplated in ED-ISA for LCE, in the professional judgement of the practitioner. For instance, practitioners should be able to access the LCE standard similar to how they currently access the special considerations in CAS 600, CAS 800 and CAS 805.
6. We support ED-ISA for LCE as a starting point. It is important that any LCE standard be contained within the CASs overall, and has a clear place within an assurance hierarchy. We do not support a self contained standard for LCEs that does not have the ability to reach back to the CASs to top-up ED-ISA for LCE in specific circumstances not contemplated by the standard.
7. If the AASB were to adopt ED-ISA for LCE in Canada, we would suggest the following Canadian amendments:
  - scoping out entities that utilize IFRS or PSAB as their accounting framework. IFRS is a complex accounting framework, and PSAB financial statements often have many users. These risk factors would indicate that entities that use IFRS and PSAB should not be permitted to use an assurance standard for less complex entities.
  - more specific guidance to practitioners, appropriate to the Canadian environment, as to entities that are scoped out of a less complex entity assurance standard to reduce regulatory risk
  - clarity as to where the standard fits within an assurance hierarchy
  - guidance about how a practitioner transitions between the standard for less complex entities and the full CASs

### **Option 2 – Limited, targeted revisions to the CASs**

8. No, we do not believe that making limited, targeted revisions to the CASs is an appropriate solution. First, if CASs were to vary from the ISAs it would undermine the purpose of having globally accepted, consistent standards. In addition, we believe the work to maintain these revised CASs would be onerous and the costs would outweigh the benefits. Alternatively, we would propose the creation of a new CAS for LCE audits that prescribes which CAS sections do not have to be applied in the audit of a less complex entity when a largely substantive approach is undertaken (for instance, elements of the CAS cited in Appendix I identified as challenging to apply in LCE audits).

### **Option 2 – Limited, targeted revisions to the CASs (cont'd)**

9. Yes, we believe the requirements identified in the AASB's previous consultations set out in Appendix I, are significantly challenging to apply in LCE audits. Notwithstanding our response to question #8, we would suggest including the following standards that we believe are challenging to apply in LCE audits:
- (i) With respect to the requirements in CAS 265, that "The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.", we believe that the scope of what constitutes a significant deficiency (in CAS 265 A5-A11) should be adjusted in the LCE standard to update the severity of more-common LCE factors such as "Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established", "Evidence of an ineffective response to identified significant risks (for example, absence of controls over such a risk)", etc.
  - (ii) With respect to CAS 600, if group audits (following comment) are permitted to apply the LCE standard, the standard should then be modified to remove more-difficult requirements. For example, elements inside "Responding to Assessed Risk" requiring assessment of significance would be excluded, since in the LCE framework, if it is a non-complex entity, the assumption would be that all entities are significant enough to test.
10. No response.

### **Option 3 – Targeted non-authoritative guidance**

11. No, we do not believe developing targeted, non-authoritative guidance is an appropriate solution overall. We believe that regulators would always hold practitioners to account to adhere to the full CASs despite non-authoritative guidance provided. However, we believe targeted, non-authoritative guidance is an appropriate measure to be undertaken in tandem with Option 1 or Option 2 to ensure practitioner, entity and third party understanding of a less complex assurance standard.
12. No response.

### **Other**

13. No response.
14. We believe the development of a separate CAS for LCE audits, contained within the CASs overall, should be prioritized by the AASB. This would allow the benefits of responding to challenges noted in the conduct of LCE audits while avoiding the issues that would be created by a separate, stand alone standard. Overall, we believe small and medium practitioners want and need a solution to the challenges encountered in LCE audits. However, it has to be constructed such that it can be used without punitive transitional provisions (that may be caused by a separate, stand-alone standard) or fear of regulatory consequences (as may occur if only non-authoritative guidance is provided).





December 9, 2021

**VIA ONLINE SUBMISSION THROUGH FRAS CANADA**

Eric Turner, FCPA, FCA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Mr. Turner,

**RE: Discussion Paper – Exploring Standard-Setting Options for Audits of Less Complex Entities**

Option 1 – Separate standard for LCE audits

Please note, we do not feel a separate standard for LCE audits is an appropriate solution in Canada, therefore we have only answered question #5 in order to explain why.

*5. Do you believe that a separate standard for LCE audits for use in Canada is an appropriate solution? Please explain why or why not.*

We support the AASB's efforts in working to make the existing CAS standards more scalable. We feel however that a separate standard would not be the most appropriate method for the following reasons:

1. The challenges currently encountered are applicable to some elements of our audit engagements, rather than the entire scope. We require a solution that can allow us to apply the appropriate CAS standard to a certain section of the entity rather than for the entirety of the audit.
2. It is important to keep the CAS's segregated by public company versus non-public company/organization, similar to ASPE versus IFRS. Creating a sub-component of both IFRS and ASPE, will have the following additional drawbacks:
  - It will require the practitioner to be knowledgeable in the application of double the existing standards, which is a significant cost investment in terms of both initial training and continuing professional development. By requiring in depth knowledge of these new standards and how/when to apply them, this will also create inefficiencies in and of itself, which contradicts the intention of this discussion.

AND/OR

- It will increase the engagement acceptance and continuance requirements, and decrease the client base that existing practitioners may be able to service. For example, an existing practitioner who currently only accepts clients under ASPE, may also choose, for efficiency purposes, to only accept clients following the less complex entity requirements. The engagement acceptance and continuance requirements will now also require that the practitioner gain a more in depth preliminary knowledge in order to assess whether they will fall under the audit of less complex entity requirement or not. This will be necessary in the early stages, before signing an engagement letter or responding to an RFP. Clients may be uncomfortable providing this detailed information up front before signing an engagement letter with the auditor, and it is a time investment from the practitioner that will be required, and likely will not be recoverable in fees.
3. It is unclear under the existing ED-ISA for LCE how the proposed changes are going to create efficiencies in performing the audit.
  4. There is a concern that the new audit report may be confusing to some users. By changing the verbiage of the report, there may be a gap between the public perception and the reality of the procedures being performed.

#### Option 2 – Limited, targeted revisions to the CASs

*8. Do you believe that making limited, targeted revisions to the CASs is an appropriate solution? Please explain why or why not.*

We feel making limited targeted revisions can achieve the objectives better than creating a separate standard. This can allow for specific areas to be customized, and prioritized in the order that they may have the most impact on efficiencies for practitioners. We understand that this approach may require a longer time to implement, and propose that in the interim period, Option #3 also be considered.

*9. Do you believe that the requirements identified in the AASB's previous consultations, set out in Appendix I, are significantly challenging to apply in LCE audits? Are other requirements in the CASs significantly challenging to apply in LCE audits that may need revisions? If so, what are they?*

Below is a listing of the existing standards outlined in Appendix I, with comments on our experience in applying them.

**Preliminary analytical review (PAR)** – in our experience, the PAR is a very valuable use of time. It is the driving document for planning meeting discussions with the engagement team and allows the opportunity to assess whether the initial numbers make sense and are in line with expectations based on our knowledge of operations that period.

**Risk assessment procedures/Understanding of internal controls/Responding to risks arising from IT** – in many of our firm's audits, internal controls and information technology are not relied upon in our audit procedures. An understanding of them is considered appropriate in order to design audit procedures and ensure our audit is a risk based approach. However, testing the controls either through control testing or in performing walkthroughs in these less complex entities is not considered to be a valuable step in order to reach an appropriate audit conclusion.

In many cases, we see minimal changes in year over year internal controls. The nature of a less complex entity typically has moderate controls in place, but there is minimal monitoring or updates made. The documentation and walkthroughs performed on an annual basis can become quite cumbersome when there are no changes over the prior period.

**Identification and response to fraud risk** – we agree that it is not well understood when the rebuttal of revenue as high risk is appropriate and the documentation to do so can be quite burdensome.

**Incorporate an element of unpredictability in the selection of procedures** – in our experience, this is a valuable step in the audit procedures. It is not a significant time investment overall and in some cases it does identify important information that may not have otherwise been brought to light.

**Journal entry testing** – in our experience, journal entry testing does often feel like a duplication of efforts as many transactions, especially those around the period end, have been tested in other areas. This however, is not a significant time investment as we can easily reference where the supporting audit work has been performed somewhere else.

**Frequency and substance of communications** – in our experience, these communications are very valuable.

**Documentation** – we agree that the CAS lacks clarity on what needs to be documented when specific audit procedures are not considered necessary and the efficiencies gained by not performing them is often lost by the extensive documentation considered necessary for why those procedures weren't performed.

In addition to the above comments, we wanted to highlight that additional guidance could be provided for CAS 500 and CAS 530. Inherently, we adjust our audit evidence and sample selections based on the risk associated with each financial statement line item, however additional guidance on these matters would be helpful. It often requires significant professional judgement to assess what audit evidence is appropriate and when, and we err on the conservative side, which may be creating some inefficiencies overall. In particular, this would be an area that the audits of less complex entities may be able to gain efficiencies. If it is a low risk area, the transaction cycles are straight forward, and results in line with expectations, what is considered to be an appropriate reduction of our audit evidence and sample selections?

10. What limited, targeted revisions to the CASs, including incorporating elements from ED-ISA for LCE (e.g., EEM), would address the significant challenges you believe exist in applying the CASs to LCE audits?

CAS 530 / 500 – Provide more structured guidance on what is considered to be appropriate audit evidence and a sufficient sample size when completing work over complex/less complex financial statement line items that are assessed as low, medium, and high risk.

CAS 315 – Reduce to requirements considered necessary to get an understanding of the entities risk assessment procedures, internal controls, and risks arising from IT. In many organizations of less complexity, many steps of the existing CAS are unnecessary in order to get a good understanding of the organization and the environment in which it operates.

Option 3 – Targeted non-authoritative guidance

*11. Do you believe that developing targeted non-authoritative guidance is an appropriate solution? Please explain why or why not.*

Option #3 is considered to be the most effective option to apply in the short term. Existing non-authoritative guidance is provided and is very helpful. Implementing Option #3 now and continuing to provide once Option #2 has been implemented will be helpful for practitioners to have demonstrative examples explained in more plain language.

*12. If the AASB focused on developing targeted non-authoritative guidance, for which areas or specific requirements in the CASs would it be most helpful? What guidance should the Board prioritize, and why?*

Based on the information provided in Question #9, below is a listing, in order of priority, of how we feel the CAS's should be individually addressed in order to create the most efficiencies.

1. CAS 230 – Audit Documentation
2. CAS 530 – Audit Sampling
3. CAS 500 – Audit Evidence
4. CAS 315.13; CAS 315.14-19 and CAS 315.22-24; CAS 315.18 and CAS 315.21 - Risk assessment procedures; Understanding internal controls; Responding to risks arising from information technology (IT)
5. CAS 240.27 - Identification and response to fraud risk

Other

*13. What other options or matters, if any, should the AASB consider as it deliberates the direction of its work in this area?*

As the AASB deliberates the direction of its work in this area, they should consider how they would define the criteria that needs to be met in order to apply CAS's relating to less complex entities. We feel it will be very important that the criteria be explicit in order to avoid confusion or a difference in professional judgement of when they should be applied.

*14. If the most appropriate way forward is a combination of options, how should the AASB prioritize them?*

We feel Option #3 should work to be implemented as soon as possible, while Option #2 is being developed.

Thank you for the opportunity to comment on this discussion paper.

Yours very truly,

GGFL LLP  
Chartered Professional Accountants



Per: Jeffrey Miller, FCPA, FCA, LPA, CFE, TEP  
Partner



Per: Sarah Tremblay, CPA, CA, LPA  
Principal, Director of Standards



Per: Eilish Quinn, CPA, CA  
Assurance Manager, Member of GGFL Professional Practice Committee

JNM/jl



December 10, 2021

Eric Turner, CPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Email: [info@asbcCanada.ca](mailto:info@asbcCanada.ca)

**Grant Thornton LLP**  
20th Floor  
200 King Street West  
Toronto, ON  
M5H 3T4  
T +1 416 366 4240  
F +1 416 360 4944  
[www.GrantThornton.ca](http://www.GrantThornton.ca)

Raymond Chabot Grant Thornton  
LLP  
Suite 2000  
National Bank Tower  
600 De La Gauchetière Street West  
Montréal, Québec  
H3B 4L8  
T + 514 878 2691  
F + 514 878 2127  
[www.rcgt.com](http://www.rcgt.com)

Dear Mr. Turner:

**Subject: Discussion paper: Exploring standard-setting options for audits for less complex entities**

We are pleased to have the opportunity to comment on the Audit and Assurance Standards Board's (the "AASB") discussion paper on exploring standard-setting options for audits of less complex entities (the "Discussion Paper").

We welcome the efforts that the AASB has undertaken over the past number of years to determine the best option (or combination of options) that may address the challenges of applying the Canadian Auditing Standards ("CASs") to audits of less complex entities ("LCEs"). We have a large client base that would be considered LCEs and therefore appreciate the effort that has been put forward to address the challenges that auditors of LCEs often encounter.

However, we do not believe that the separate standard for LCE audits, as currently being exposed by the International Audit and Assurance Standards Board ("IAASB") is a solution to these challenges. The Exposure Draft, Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities ("ED-ISA for LCE") does not represent a change in the work effort or requirements from the core requirements of the CAS. We believe that of the three alternatives presented, Option C – targeted, non-authoritative guidance is the appropriate solution to address the challenges faced by applying the CASs to LCEs.

Please find our detailed response to the request for specific comments included in the appendix to this letter. We focused our response on the options that the AASB might explore in Canada for audits of LCEs. Question 2, which is a question specific to the IAASB's ED-ISA for LCE will be responded to by Grant Thornton International on behalf of its member firms and has been excluded from the appendix.

Should you wish to discuss any of our comments, please contact Greg Weber ([greg.weber@ca.gt.com](mailto:greg.weber@ca.gt.com)) or Angélique Brand ([brand.angelique@rcgt.com](mailto:brand.angelique@rcgt.com)).

Yours sincerely,

Greg Weber, CPA, CA  
Grant Thornton LLP

Angélique Brand, CPA, CA  
Raymond Chabot Grant Thornton LLP

## Appendix

### Public interest considerations

- 1. Do you agree with the concerns stakeholders raised in the AASB's previous consultations in paragraph 8 and with the public interest consideration in paragraph 9? Are there other concerns or public interest considerations not identified in these paragraphs?**

We understand that a large number of Canadian practitioners share the concerns listed in paragraph 8 of the Discussion Paper and have similar concerns and observations within our Canadian Firm. However, we do not believe these concerns are preventing quality audits for LCEs using the CASs. We believe that the efforts to date by both the AASB and the IAASB are very helpful in this cause and can be used as a starting point for guidance, learning and teaching tools. By building up the professional confidence of an auditor, professional judgement will be easier to apply in determining how to scale the work effort for an audit of an LCE.

### Option 1 – Separate standard for LCE audits

Question 2 in this Discussion Paper relates specifically to the IAASB's questions on their exposure draft and will be responded to by Grant Thornton International on behalf of its member firms.

- 3. Consider the Authority of the Standard in Part A of ED-ISA for LCE. If the proposed ISA for LCE was adopted in Canada:**

- (a) Will practitioners be able to use the proposed standard in the Canadian environment?**

Some of the criteria in the Authority of the Standard in Part A of ED-ISA for LCE would allow for practitioners to use the proposed standard in the Canadian environment, as it is clear what types of entities are specifically scoped out in paragraph A.7(a)-(c) such as prohibited by law or regulation, listed entities, entities whose function is to provide post-employment benefits, etc. However, paragraph A.7(d) specifically scopes out audits of group financial statements. Although many group audits may be complex, in the Canadian environment there are many non-complex group audits, consisting of a holding company and its operating entity.

Furthermore, we believe that the qualitative characteristics as listed in paragraphs A.8-.9 will cause instances where one year the proposed LCE standard is appropriate to use and then a change occurs and the LCE standard is no longer applicable. For example, a client may have non-complex accounts receivables and have always appropriately recorded a minimal provision for inventory, therefore not having complex estimates. If an unforeseen change occurred within the environment such that there is a complex estimate subject to a higher degree of estimation uncertainty related to receivables, for example, the LCE standard would not be applicable to this entity for that year.

Moving back and forth between the LCE standard and the CAS may cause confusion for the auditors as well as the users of the financial statements who will not be receiving the same type of auditor's report year over year. Consideration would need to be given regarding how to describe comparative figures in such a situation, as those figures would not have been audited using the same standards.

- (b) In addition to the prohibitions already included in Part A of ED-ISA for LCE, are there specific types of entities or industries in Canada that you believe should be explicitly prohibited from using the proposed standard? Are there specific types of entities or industries in Canada that should be explicitly allowed to use the proposed standard?**

Please see question 3(a) above where we believe that audits of group financial statements must be explicitly allowed to use the proposed standard if implemented in Canada.

- (c) Are there specific thresholds or criteria you believe would be appropriate to establish in Canada for when the proposed standard may be used?**

Please see question 3(a) above where we detail examples of how it may be difficult to establish specific thresholds or criteria for when the proposed standard may be used given there are going to be instances where an entity may qualify one year yet not the next.

**4. If the AASB were to adopt ED-ISA for LCE in Canada:**

**(a) Do you believe users' perception may change in terms of the level of assurance provided in an audit engagement performed using the proposed standard compared to the CASs?**

Yes, we believe that users' perception may change in terms of the level of assurance provided in an audit engagement performed using the proposed standard compared to the CASs because of the different auditor's report. The proposed standard will only widen the expectation gap around levels of assurance and cause confusion in the marketplace.

Although the core requirements of the proposed standard and the CASs are fundamentally the same and provide reasonable assurance, users may not understand this when they see different auditor's reports. For example, two similar entities could have been audited, one under the CASs and the other under the proposed LCE standard which results in two different auditor's reports. Will the bank manager who reads these reports understand that reasonable assurance and therefore, the requirement for the entity to obtain audited financial statements, was met? If the AASB and/or CPA Canada successfully clarifies to financial statement users that an audit under the LCE standard is not a lower level of assurance, it remains unclear from the perspective of users of the financial statements the benefit of obtaining a LCE auditor's report compared to the traditional, well known CAS auditor's report. This is particularly important given the potential costs of redrafting agreements or revising regulations as well as the complications of being scoped in/out of the LCE standard when complex matters arise in a given year. We feel this could have a significant impact on adoption within the Canadian environment.

We believe that further confusion may arise with users when the auditor is required to move back and forth between the LCE standard and the CAS if a complexity is identified, as the auditor does not have the ability to "top up" the work effort required under the LCE standard with the appropriate requirements from the CASs as needed. This does not meet one of the objectives of the project to serve the public interest by maintaining confidence in financial reporting of LCEs.

**(b) How would performing an audit under the proposed standard differ, if at all, from performing an audit under the CASs? Do you anticipate specific efficiencies or benefits? Please explain why or why not.**

We do not expect an audit under the proposed standard to differ from an audit under the CASs. The proposed standard contains the core requirements of the CASs, less the sections that are not relevant to LCEs (such as CAS 540 *Auditing Accounting Estimates and Related Disclosures* or CAS 610 *Using the Work of Internal Auditors*). Auditors completing a CAS audit for a LCE would need not refer to the standards that do not apply to their audit, resulting in the same work effort as an audit under the proposed standard.

**(c) What implementation support do you believe would be required for the proposed standard (e.g., further guidance, training or tools) initially and on an ongoing basis?**

Please see our responses below for Option 3. We believe the proposed standard would be a good starting point for non-authoritative guidance or potentially the audit methodology for the Professional Engagement Guide ("PEG").

However, if the proposed standard was implemented in Canada, we caution that the training effort would be the same as it is for the CAS every time a new or amended standard becomes applicable as the proposed LCE standard would most likely need to reflect similar changes to address the requirements.

**5. Do you believe that a separate standard for LCE audits for use in Canada is an appropriate solution? Please explain why or why not.**

As detailed in our responses above, we do not believe that a separate standard for LCE audits for use in Canada is an appropriate solution. Although the ED-ISA for LCE as currently drafted is structured well based on the flow of an audit and uses easily understood language, it does not fundamentally differ from the core requirements of



the CAS. In recent years, as new standards have been implemented (CASs from Canadian GAAS), or standards have been revised (CASs 315 and 540, for example), the purpose for the changes in requirements have been to increase quality. The proposed standard, although contains useful guidance, is not changing the requirements for the audit, the work effort remains the same. It is unclear if there is added value for the users of financial statements audited using the LCE standard, which may cause further confusion in the marketplace and ultimately, we question if users of the financial statements will accept an LCE auditor's report.

**6. If you believe that a separate standard for LCE audits for use in Canada is an appropriate solution, do you support the adoption of ED-ISA for LCE? Please explain why or why not.**

Not applicable as we do not believe a separate standard for LCE audits for use in Canada is the appropriate solution.

**7. If the AASB were to adopt ED-ISA for LCE in Canada, would you suggest any Canadian amendments? If so, what would they be?**

Not applicable as we do not believe a separate standard for LCE audits for use in Canada is the appropriate solution.

### **Option 2 – Limited, targeted revisions to the CASs**

**8. Do you believe that making limited, targeted revisions to the CASs is an appropriate solution? Please explain why or why not.**

We do not believe making limited, targeted revisions to the CASs is an appropriate solution. Currently in Canada, we are fortunate to have our CASs substantially aligned with the ISAs and should not look at deviating away from this practice. For firms that are part of international networks, differences in local standards require localization which adds a burden onto the local firms in terms of methodology and training.

Furthermore, when revising the CASs, each section would need to undergo exposure for the specific revisions applicable to LCE, not only making the process lengthy to implement but also adding length to the individual standards within the CASs themselves, which is contrary to one of the objectives of the project. If the revisions are to include additional application and other explanatory material focused on describing considerations specific to LCEs, this does not have to be achieved through revisions to the CASs. It can be done through issuing targeted, non-authoritative guidance as outlined in Option C of the Discussion Paper.

**9. Do you believe that the requirements identified in the AASB's previous consultations, set out in Appendix I, are significantly challenging to apply in LCE audits? Are other requirements in the CASs significantly challenging to apply in LCE audits that may need revisions? If so, what are they?**

We do not believe that the requirements set out in Appendix I are significantly challenging to apply to LCE audits. At Grant Thornton, our methodology was designed to be scalable and is still in accordance with the CASs. We have considered how this proposed standard would impact our methodology and do not believe it would change any of our work programs or the workflow of audit teams.

**10. What limited, targeted revisions to the CASs, including incorporating elements from ED-ISA for LCE (e.g., EEM), would address the significant challenges you believe exist in applying the CASs to LCE audits?**

We do not believe that limited, targeted revisions to the CASs are the appropriate solution.

### **Option 3 – Targeted non-authoritative guidance**

**11. Do you believe that developing targeted non-authoritative guidance is an appropriate solution? Please explain why or why not.**

We believe that developing targeted non-authoritative guidance is the most appropriate solution in addressing the challenges in performing audits of LCEs. When reading the proposed standard and familiarizing ourselves with it, our initial thought was that we believed that the material would be a good start for training.

As discussed above in question 9, we believe our methodology is scalable. Given the large number of LCE audits we have in our client base, to address the perceived issue about scalability of the CASs, we have provided modeling to our teams demonstrating how to scale our methodology. This has led to consistency in planning, execution and most importantly, documentation for our LCE audits.

We acknowledge that there are large number of firms in Canada that only audit LCEs, such as small not-for profits, however, we believe it will be rare that a practitioner would only be required to understand the proposed standard. As pointed out in question 3(a) above, if an entity's situation changes and the proposed standard is no longer applicable due to newly added complexity, the CASs must be used. Therefore, in order to perform the audit the following year, the auditor must complete a CAS audit. Realistically, practitioners must be knowledgeable in both the CASs and the proposed standard, so creating a stand-alone LCE standard does not prevent a practitioner from needing to understand the CASs. Therefore, we believe that the challenges in performing audits of LCEs is best addressed through guidance, training and modeling of the PEG.

**12. If the AASB focused on developing targeted non-authoritative guidance, for which areas or specific requirements in the CASs would it be most helpful? What guidance should the Board prioritize, and why?**

If the AASB focused on developed targeted non-authoritative guidance, we believe that modeling of particular risk assessment sections should be the immediate priority, specifically around the appropriate level of documentation for understand the entity, business processes and control activities (including IT). This will be even more important when revised CAS 315, *Identifying and assessing the risks of material misstatement* needs to be applied because of the enhanced requirements around IT systems and internal controls.

**Other**

**13. What other options or matters, if any, should the AASB consider as it deliberates the direction of its work in this area?**

We believe that CPA Canada has always provided useful and relevant guidance, especially with the development and maintenance of the PEG. As a large majority of practitioners in Canada use the PEG as their audit methodology, we believe that there is the opportunity to take the guidance, as currently in the blue boxes from the ED-ISA for LCE and incorporate into the PEG. This would meet the objective of providing targeted guidance for audits of LCE without the requirement of a new standard.

**14. If the most appropriate way forward is a combination of options, how should the AASB prioritize them?**

We believe that option 3 is currently the best approach and do not believe that a combination of any of options 1, 2 or 3 as listed above are feasible or provide an appropriate solution to the challenges of applying the CASs to LCEs.

December 10, 2021

Eric Turner, FCPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

**Re: Discussion Paper (DP): Exploring Standard-Setting Options for Audits of Less Complex Entities**

Thank you for the opportunity to comment on the Discussion Paper (“DP”).

MNP LLP (“MNP”) is one of Canada’s largest chartered professional accountancy and business advisory firms. Our client base is focussed on small to mid-size businesses covering a broad range of industries including agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities and businesses, medical and legal professionals, not-for-profit organizations, municipalities, government entities, and publicly traded companies. We believe that we are well positioned to provide feedback on this discussion paper.

We have reviewed the IAASBs Exposure Draft (ED), proposed International Standard on Auditing for Audits of Less Complex Entities (ISA for LCE) and have provided the IAASB with responses to some of their questions in Appendix 1.

**AASB Questions**

We agree that it is important to continue to align with the International Standards on Auditing while preserving the quality of Canadian Auditing Standards and meeting the needs of Canadian stakeholders. The Canadian audit environment differs from international audit environments in both the average size of an audit and the perceived complexity level.

**Question 1: Do you agree with the concerns stakeholders raised in the AASB’s previous consultations in paragraph 8 and with the public interest consideration in paragraph 9? Are there other concerns or public interest considerations not identified in these paragraphs?**

We agree with the concerns stakeholders raised in the AASB’s previous consultations in paragraph 8, including Appendix 1, and with the public interest consideration in paragraph 9. We also believe that ISA 540 *Auditing Accounting Estimates and Related Disclosures* is challenging to apply in LCE audits. Refer to our response in Question 9.

**Question 2: The AASB is particularly interested in views on the questions below in the IAASB’s Explanatory Memorandum about ED-ISA for LCE:**

- (a) Questions 3-6 relating to the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard).
- (b) Question 7(d) relating to the approach to the EEM. Specifically, do you believe ED-ISA for LCE includes sufficient EEM to help an auditor perform a high-quality audit?
- (c) Question 13 relating to transitioning between ED-ISA for LCE and the ISAs. Specifically:

- (i) Do you agree with the view in paragraph 131 that it should be relatively rare for an audit of an entity to need to transition after engagement acceptance or continuance from using ED-ISA for LCE to using the ISAs?
- (ii) Do you support the premise in paragraphs 26 and 133 that relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE to address circumstances not contemplated in ED-ISA for LCE? For example, where ED-ISA for LCE does not contemplate an element of complexity that arises during the audit, the ISAs cannot be used.
- (iii) Paragraph 139 sets out a list of matters the practitioner needs to consider if they determined that ED-ISA for LCE is no longer appropriate for use in an audit engagement. Is this list appropriate and complete?

- a) Please refer to our comment letter to the IAASB in Appendix 1 for our responses related to the Authority of ED-ISA for LCE.
- b) We agree with the IAASB’s approach to the EEM, however note that there may be instances where helpful application guidance in the ISAs for the purposes of an audit of a LCE is not included in the EEM. In these instances, it should be appropriate for the auditor to use the mapping document to locate the relevant ISA standard and search for any relevant application guidance needed.
- c) Please refer to our comment letter to the IAASB in Appendix 1 for our responses related to transitioning between ED-ISA for LCE and the ISAs.

**Question 3: Consider the Authority of the Standard in Part A of ED-ISA for LCE. If the proposed ISA for LCE was adopted in Canada:**

- (a) Will practitioners be able to use the proposed standard in the Canadian environment?
- (b) In addition to the prohibitions already included in Part A of ED-ISA for LCE, are there specific types of entities or industries in Canada that you believe should be explicitly prohibited from using the proposed standard? Are there specific types of entities or industries in Canada that should be explicitly allowed to use the proposed standard?
- (c) Are there specific thresholds or criteria you believe would be appropriate to establish in Canada for when the proposed standard may be used?

- a) If the AASB were to adopt ED-ISA for LCE in Canada, practitioners will be able to use the proposed standard in the Canadian environment. Refer to our response in the IAASB comment letter regarding limitations we envision based on the current authority to the standard.
- b) We do not suggest any additional specific types of entities that should be prohibited from using the proposed standard. We believe that entities that use Public Sector Accounting Standards (e.g., Indigenous groups, municipalities), as well as not-for-profit entities and cooperatives should be explicitly allowed to use the proposed standard when they meet the criteria of an LCE. Refer to our response to Question 4 in our IAASB comment letter for further discussion.
- c) There are no specific thresholds or criteria we believe would be appropriate to establish in Canada for the proposed standard.

**Question 4: If the AASB were to adopt ED-ISA for LCE in Canada**

- (a) Do you believe users' perception may change in terms of the level of assurance provided in an audit engagement performed using the proposed standard compared to the CASs?
- (b) How would performing an audit under the proposed standard differ, if at all, from performing an audit under the CASs? Do you anticipate specific efficiencies or benefits? Please explain why or why not.
- (c) What implementation support do you believe would be required for the proposed standard (e.g., further guidance, training or tools) initially and on an ongoing basis?
- a) As the ED is currently drafted, the auditor's report would state that the audit was conducted in accordance with ISA for LCE. We believe that stating this fact might cause confusion amongst users' perception as to whether the same level of assurance has been obtained as it would have been in an audit conducted in accordance with the full set of ISAs. In certain scenarios with two-year opinions, this can result in two different auditing standards being referenced in the auditors' report. If an audit of a LCE under the proposed standard achieves the same level of reasonable assurance as an audit in accordance with the extant ISAs, and as stated in paragraph 101 of the ED, "it is not envisioned that ED-ISA for LCE will necessarily reduce the core procedures the auditor is required to perform to support the overall quality of the audit", we believe it would reduce the risk of misunderstanding by containing the CAS for LCE within the existing catalogue of CASs (e.g., as CAS 1000) in order to keep the auditor's report reference to the auditing standards the same regardless of which audit approach is taken.
- b) We do not anticipate performing an audit under the proposed standard to differ from performing an audit under the CASs. As stated above, the ED notes that ISA for LCE will not reduce the core procedures the auditor is required to perform. If anything, an auditor may need to perform additional work if they discovered part-way through the audit that the entity is no longer a LCE (e.g., the entity enters into a complex transaction after planning and interim procedures have been completed) as the auditor would need to re-engage the client, update their planning communications to those charged with governance, etc.
- c) We believe implementation support in the form of audit guides (similar to the Professional Engagement Guide) will be needed for the new standard. As well implementation support for report users will be needed to prevent a perception that an audit under ISA for LCE provides less assurance than an audit under the extant ISAs.

**Question 5: Do you believe that a separate standard for LCE audits for use in Canada is an appropriate solution? Please explain why or why not.**

We believe that a separate standard for LCE audits for use in Canada is an appropriate solution. A separate standard that can easily be understood and followed will open the door for smaller practitioners to perform audits for LCEs and will help smaller firms improve upon their audit methodologies.

**Question 6: If you believe that a separate standard for LCE audits for use in Canada is an appropriate solution, do you support the adoption of ED-ISA for LCE? Please explain why or why not.**

We support the adoption of ED-ISA for LCE. We believe it would be appropriate to converge with the IAASB as we have in the past. We believe this new standard will facilitate audit practitioners to audit LCEs without having to understand the full set of ISAs. We believe a separate standard for LCE audits may open the door to further opportunities to make audits of LCEs easier for auditors.

**Question 7: If the AASB were to adopt ED-ISA for LCE in Canada, would you suggest any Canadian amendments? If so, what would they be?**

If the IAASB does not make the following amendments, we believe these should be made as Canadian amendments for the CAS equivalent of ISA for LCE:

- Using EEM to specify that CAS for LCE may be appropriate when the entity's accounting framework is Public Sector Accounting Standards or when the entity is a not-for-profit organization or cooperative. As A.5 is currently drafted, there may be a presumption that such entities have public interest despite not all these entities meeting the public interest criteria described in A.7(c).
- Removing the "ownership or oversight structures [that] are complex" as a characteristic of complexity from Paragraph A.9. In Canada, many LCE have complex structures for tax planning purposes however this does not impact the complexity of the audit.
- Softening or removing the language in Paragraph A.9 that presumes that entities operating in new or emerging markets or entities in the development stage increase the complexity of the audit. While this may be true for entities in new markets for which there is little accounting guidance available, this is not always the case. Many development or exploration stage entities in the mining industry are less complex.
- Permitting auditors to use CAS for LCE when they encounter one-time complex transactions in an otherwise LCE audit or if they have a few complex estimates. For example, for LCEs that enter into business combinations or for LCEs in the agriculture or cannabis industries that have one complex estimate (e.g., livestock or cannabis genetics). If any intangible rights or goodwill are determined to be complex estimates, this will exclude a significant number of otherwise less complex entities.
- Including the LCE audit standard within the suite of existing CASs and having the auditors report reference the audit being conducted in accordance with the CASs (rather than "CAS for LCE").
- Including the CAS-800 series within CAS for LCE as there are many special purpose framework audits of LCE entities in Canada.
- Including group audits within the scope of CAS for LCE. An entity having components does not necessarily add to the complexity of the entity. There will be group entities that are deemed to be complex and others that are less complex. Auditors should be able to make the determination as to whether the group structure, group control environment, and group accounting processes contribute to the complexity of an entity.

**Question 8: Do you believe that making limited, targeted revisions to the CASs is an appropriate solution? Please explain why or why not.**

We do not believe that making limited, targeted revisions to the CASs would be an appropriate solution. This would cause a significant divergence with the international standards. As well, it would be increasing the barrier for smaller audit practitioners to start delivering audits as they would need to read through the entire standards in order to identify how to apply the CASs to a LCE audit.

**Question 9: Do you believe that the requirements identified in the AASB's previous consultations, set out in Appendix I, are significantly challenging to apply in LCE audits? Are other requirements**

**in the CASs significantly challenging to apply in LCE audits that may need revisions? If so, what are they?**

As mentioned above, we believe that ISA 540 Auditing Accounting Estimates and Related Disclosures is challenging to apply in LCE audits. Management of LCEs are often inexperienced in accounting and as such, may lack the ability to prepare and document an analysis of sufficiency to meet the auditor's expectations. Further LCE's tend to be operations with very limited transactions, relatively newly established, or in an industry with little comparative market information. These scenarios all beg the question that paragraph 13 related to the documentation and understanding of the entity's system of internal control related to the estimate is onerous and does not appropriately facilitate determining an audit response for audits of LCEs.

**Question 10: What limited, targeted revisions to the CASs, including incorporating elements from ED-ISA for LCE (e.g., EEM), would address the significant challenges you believe exist in applying the CASs to LCE audits?**

We do not agree with making limited, targeted revisions to the CASs.

**Question 11: Do you believe that developing targeted non-authoritative guidance is an appropriate solution? Please explain why or why not.**

We do not believe that developing targeted non-authoritative guidance is an appropriate solution. If an auditor uses the non-authoritative guidance to audit a LCE and arrives at an inappropriate opinion resulting in litigation, the auditor has no protection from this guidance.

We do believe that if the ISA for LCE standard were adopted in Canada there would be additional non-authoritative guidance to help auditors apply ISA for LCE and for report users to understand how ISA for LCE still provides reasonable assurance.

**Question 12: If the AASB focused on developing targeted non-authoritative guidance, for which areas or specific requirements in the CASs would it be most helpful? What guidance should the Board prioritize, and why?**

The AASB should provide additional examples of when an entity would be considered more complex vs. less complex. The supplemental guidance on the authority published by the IAASB does provide some additional examples of where an estimate would be considered complex however providing case study examples would be more useful to auditors to understand how to exercise professional judgement when determining whether an entity is less complex for the purposes of using the new standard.

**Question 14: If the most appropriate way forward is a combination of options, how should the AASB prioritize them?**

The AASB should prioritize adopting ISA for LCE upon the IAASB's finalization of the standard. Non-authoritative guidance can be prepared during this adoption process and should be ready for publication in advance of the effective date of the LCE standard in order to educate both practitioners and report users.

We would be pleased to offer assistance to the AASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

**MNP LLP**

*Michelle Balmer*

Michelle Balmer, CPA, CA  
Vice President, Assurance



## Appendix 1 – Comment Letter to IAASB

December 10, 2021

International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

### Re: Exposure Draft: Proposed International Standard on Auditing for Audits of Less Complex Entities (ISA for LCE)

Thank you for the opportunity to comment on this Exposure Draft (“ED”).

MNP LLP (“MNP”) is one of Canada’s largest chartered professional accountancy and business advisory firms. Our client base is focussed on small to mid-size businesses covering a broad range of industries including agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities and businesses, medical and legal professionals, not-for-profit organizations, municipalities, government entities, and publicly traded companies. We believe that we are positioned well to provide feedback on this ED for a standalone auditing standard for audits of Less Complex Entities (LCEs).

Canadian Audit Standards (CAS) are directly based on the ISAs. Increasingly, our practitioners, those charged with governance and client management are challenged with whether the CAS are fit-for-purpose when applied to small and medium sized entities (SMEs). As one example, many SMEs may not have formalized or evidenced internal control and risk-assessment processes. Certain aspects of the revised ISA 315 may be both onerous and of little value to the quality of these audits. According to the government of Canada<sup>1</sup>, SMEs make up the vast majority of businesses in Canada and provide the vast majority of employment. We believe an auditing standard focussed on less complex entities is necessary for efficient, effective assurance SMEs require when attracting new investment.

Moreover, to have the intended impact of a globally consistent set of assurance standards eliminating or reducing the usage of divergent national standards, the LCE standard should be as broadly applicable as possible.

We also note that both in Canada, and globally, the attractiveness of audit as a profession is being examined. Firms in Canada are experiencing a rapid shift in the ability to attract and retain talented individuals. We believe that standards sharply focussed on the needs of SMEs is a critical element of the attractiveness of the profession to the majority of our practitioners and accordingly, to have the capacity to meet the assurance needs of the broader economy.

### Questions

**Question 4: Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:**

- (a) **Specific prohibitions; and**

<sup>1</sup> [Key Small Business Statistics — 2020 - SME research and statistics](#)

(b) **Qualitative characteristics.**

**If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.**

We agree with some of the proposed limitations relating to the use of ISA for LCE, however there are a number of areas where we do not agree with the limitations or we believe further clarification is needed.

Public interest characteristics

We believe that further clarification is needed with regards to public interest characteristics that may unduly prohibit a practitioner from using the LCE standard where it is otherwise an appropriate choice. We perform audits for Indigenous groups, municipalities, and local school divisions who all follow Public Sector Accounting Standards. Although these groups may be in the public interest, they generally are not complicated entities and are likely to be eligible for the LCE standard when considering the qualitative considerations. However, stakeholders may be confused or apprehensive about LCE standards which may deter their use. We also perform audits for not-for-profits and cooperatives which are less complex however they may be perceived as being or actually are in the public interest, even though they don't meet the characteristics per paragraph A.7(c) in the ED. We recommend adding essential explanatory material for paragraph A.5 to specify that ISA for LCE may be appropriate even for public sector entities, not-for-profit organizations, or cooperative entities.

Organizational structure

Paragraph A.9 describes one of the characteristics of complexity as “ownership or oversight structures [that] are complex”. Oftentimes complex structures exist for the purposes of tax planning, however these are not indicative of complexity in a way that would impact our audit efforts or the needs of the users. We believe that further clarification should be provided so it is specific that the complexity of the ownership or oversight structure is such that it impacts the complexity of the audit or that this characteristic should be removed.

Complexity of users vs. complexity of entity

We believe that the authority of the ISA for LCE standard combines the complexity of the entity with the complexity of the userbase. As ISA for LCE is designed to achieve a level of reasonable assurance, regardless of the user. It should not matter who the users are or how many there are. While increased users (e.g., more widely held, publicly traded) is an audit consideration, this isn't a characteristic of the entity itself and should not factor into the entity's complexity determination.

New/emerging markets and development stage companies

Paragraph A.9 also presumes that entities operating in new or emerging markets or entities in the development stage increase the complexity of the audit. Many development or exploration stage entities in a number of industries are less complex, from extractive industries through to biotech industries. We believe this language should be softened (e.g., “may increase the complexity of the audit”) or removed to prevent truly less-complex entities from being scoped out of the ISA for LCE standard.

Accounting estimates

Paragraph A.9 includes the characteristic of "...accounting estimates [that] are subject to a higher degree of estimation uncertainty or the measurement basis requires complex methods...". We believe there are many entities that should be considered less complex, however contain one or two accounting estimates with a higher degree of estimation uncertainty. For example, there may be entities in the agriculture industries that have simple, less-complex operations however they have livestock (e.g., cattle) or fruit orchards that are treated like a complex estimate in audit due to the data and computations used. As well, if any intangible rights or goodwill are determined to be complex estimates, this will exclude a significant number of entities that otherwise would have been deemed to be less complex.

We expect that this qualitative characteristic will come up for many LCEs that undergo business combinations given there are typically more complicated estimates involved. This results in one year where the entity is deemed complex followed by the entity being deemed less complex in subsequent years. This will have further impacts on the audit opinion and the users' perception of the audit report when practitioners are required to report using the LCE standard and then having to change to the full suite of ISAs due to the business combination (i.e., audit report's prepared in accordance with different auditing standards). We believe that a practitioner should be able to use the ISA for LCE standard, consistently year-to-year, in scenarios where there are a limited number of estimates.

**Question 10: For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:**

- (c) **The presentation, content and completeness of Part 9.**
- (d) **The approach to include a specified format and content of an unmodified auditor's report as a requirement?**
- (e) **The approach to providing example auditor's reports in the Reporting Supplemental Guide.**

We agree with the approach to include a specified format and content as a requirement, except for where the auditor's report references the audit as being performed in accordance with ISA for LCE. We believe that having the auditor's report reference a separate ISA may cause confusion amongst report users or create a false perception that ISA for LCE provides a lesser level of assurance. In certain scenarios with two-year opinions, this can result in two different auditing standards being referenced in the auditors' report. If an audit of a LCE under the proposed standard achieves the same level of reasonable assurance as an audit in accordance with the extant ISAs, and as stated in paragraph 101 of the ED, "it is not envisioned that ED-ISA for LCE will necessarily reduce the core procedures the auditor is required to perform to support the overall quality of the audit", we believe it would reduce the risk of misunderstanding by containing the ISA for LCE within the existing catalogue of ISAs (e.g., as ISA 1000) in order to keep the auditor's report reference to the auditing standards the same regardless of which audit approach is taken.

**Question 13: Please provide your views on transitioning:**

- (a) **Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?**
- (b) **What support materials would assist in addressing these challenges?**

We believe there will be challenges for transitioning to the ISAs from ISA for LCE. We believe that based on the current drafting of the authority of the standard, audit teams will often encounter transactions (e.g., business combinations, transactions outside the normal course of business that involve estimates) that

would prohibit the use of the ISA for LCE standard in a subsequent audit period. These transactions may not occur until near period-end, after planning has already been completed. This would increase time pressure for the audit team to transition from ISAs for LCE to ISAs. The audit team would need to re-establish the terms of the engagement, reissue communications with those charged with governance, and “restart” some of their planning activities, which could impact an entity’s perception of the audit process and the auditing standards. Additionally, there may be incremental procedures that need to be performed over prior year balances or transactions. We recommend that ISA for LCE be expanded and clarified such that less entities would be scoped out by these type of one-time transactions.

**Question 16: Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.**

We believe that a separate Part on the ISA-800 series should be included within ED-ISA for LCE. There are many circumstances where we perform audits over special purpose financial statements for less complex entities. We do not expect it to require a high level of effort in order to incorporate these sections into the new standard, therefore it would be better to include now than to consider including after the new standard is effective.

**Question 17: In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:**

- (a) **Whether the proposed standard can, and will, be used in your jurisdiction.**
- (b) **Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.**
- (c) **Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).**

Overall, we believe that ED-ISA for LCE would meet the needs of users and other stakeholders. We believe that this standard will be particularly useful to smaller audit practitioners that find the current set of ISAs too cumbersome. We do, however, believe that some changes should be made (as described throughout this response) in order to facilitate its broad usage for audit practitioners and to reduce the chance of misinforming audit report users.

We believe including a statement that the audit was performed in accordance with ISAs for LCE may confuse users, especially when transactions arise that prohibit the engagement team from using the standard from one year to another (i.e., having the prior year reported under ISA for LCE, the current year under ISAs, then the subsequent year under ISA for LCE). Having the standalone standard within the suite of existing ISAs and keeping a consistent audit report would eliminate this confusion.

**Question 22: The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.**

We believe that group audits should be included in the scope of ED-ISA for LCE. An entity having components does not necessarily add to the complexity of the entity. There will be group entities that are deemed to be complex and others that are less complex. Auditors should be able to make the determination as to whether the group structure, group control environment, and group accounting processes contribute to the complexity of an entity.

**Question 24: If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):**

- (a) **The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or**
- (b) **ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.**

We are in favour of using qualitative characteristics to determine the complexity specific to groups as no two group entities are the same. This encourages the use of professional judgement. Establishing a proxy (or proxies) for complexity of group audits may unnecessarily preclude certain group entities that are actually less complex and allow for certain group entities that are complex.

**Question 26: If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):**

- (a) **Presenting all requirements pertaining to group audits in a separate Part; or**
- (b) **Presenting the requirements pertaining to group audits within each relevant Part.**

As ISA 600 is a separate standard, we believe keeping that consistency and having a separate part in addition to Part 1 to Part 9 would make the most sense for including group audit requirements. This would reduce the amount of unnecessary information that auditors of non-group LCEs would have to filter through when using the standard.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

**MNP LLP**

*Michelle Balmer*

Michelle Balmer, CPA, CA  
Vice President, Assurance



T 905 522 6555 F 905 522 6574 6th Floor, One James Street South Hamilton ON L8P 4R5

November 18, 2021

**Auditing and Assurance Standards Board**  
**277 Wellington Street West**  
**Toronto, ON M5V 3H2**

**Eric Turner, FCPA, FCA,**  
**Director, Auditing and Assurance Standards**  
**Auditing and Assurance Standards Board**

Dear Mr. Turner:

**Re: Canadian Auditing Standards Discussion Paper: Exploring Standard-Setting Options for Audits of Less Complex Entities (LCE)**

We are pleased to provide our comments on the Discussion Paper, *Exploring Standard-Setting Options for Audits of Less Complex Entities* (the "Discussion Paper"). Pettinelli Mastroiusti LLP is an accounting firm with over 35 years of experience and is the business partner of choice for privately owned corporations and non-profit organizations throughout Hamilton, Ontario and the surrounding area. In our response, "we" refers to Pettinelli Mastroiusti LLP.

We are supportive of the efforts being devoted to try and scale the CASSs in an appropriate manner based on the nature of an entity consistent with the concerns raised by other stakeholders as outlined in paragraphs eight (8) to ten (10) of the Discussion Paper.

The structure of this memorandum will first focus our comments towards the drawbacks of each of the possible options described in the Discussion Paper, followed by our overall view on the most appropriate way forward. We have chosen not to speak specifically on the benefits of each option as generally we are in agreement with those outlined in the Discussion Paper.

***Option 1 – Separate standard for LCE audits***

We do not agree that a separate standard for LCEs will require practitioners to exercise a significant amount of judgement in deciding whether such a standard can or should be applied. In our opinion, this concern could be mitigated by a well-defined definition of the typical qualities that LCEs possess. This could be supplemented further with practical examples to aid practitioners in their assessment of whether an entity meets the definition of an LCE or not. Although we agree that the characteristics of an LCE as presented in the International Auditing and Assurance Standards Board (IAASB) discussion paper are not exhaustive, we do believe that they are determinative. Based on the clients we service, most if not all the following qualitative characteristics of the definition would be met (i.e. concentration of ownership and management in a small number of individuals; often a single shareholder, straightforward or uncomplicated transactions, simple record keeping, few lines of business, few internal controls, few levels of management with responsibility for a broad range of controls, or few personnel with many having a wide range of duties). We agree that the characteristic of "concentration of ownership and management" may not necessarily define the complexity of an entity as a company/organization may have numerous owners or stakeholders but still have fewer complex operations and a simple business model. To this

**PETTINELLI MASTROIUSTI LLP**

CHARTERED PROFESSIONAL ACCOUNTANTS

point, this characteristic should not be a precondition but rather an indication which is considered together with the other elements of the definition as noted above.

We agree that the public may perceive an audit conducted using LCE standards as a lower level of assurance compared to an audit conducted under the traditional Canadian Audit Standards (CASS) which may create confusion and exacerbate users' expectation gap. However, to the extent that the LCE standards reduce or eliminate work in the areas which are onerous (i.e. preliminary risk assessment, understanding internal controls, unpredictability, journal entries, etc.), especially where a fully substantive approach is taken, our stance is that these procedures do not provide any incremental assurance and are largely compliance driven. To assist in mitigating the expectation gap, the audit opinion when using LCE standards should explicitly state that it provides the same level of assurance as an audit conducted under CASS.

We agree that if the LCE standards are based on the core requirements of CASS, practitioners may not achieve significant efficiencies. If the LCE standards allow for practitioners to provide a reasonable assurance opinion this begs the question if the CASS should be scaled back for all entities (regardless of complexity) or if LCE standards will actually reduce the work involved. The changes would have to be substantial enough to create efficiencies otherwise a separate standard would be counterintuitive and would not facilitate the desired result for auditors or their clients.

We agree that it would deter practitioners from using LCE standards if they are required during an audit to continuously evaluate whether circumstances or complexities have arisen that would result in it being inappropriate to continuing using the standard. However, as the definition of an LCE proposed by the IAASB alludes to, "straightforward or uncomplicated transactions" is only one element of an LCE. Therefore, if one or more complexities arise through the course of an audit, in isolation, this should not default practitioners into having to revert to CASS midway through the audit. While it may be common for "one-off" or new transactions to create some complexities, it would be rare for other elements of an LCE to change from the time of the engagement's acceptance or continuance to the time that audit procedures are being performed. This is especially true given most audits performed for LCEs are done in their entirety subsequent to the fiscal year-end (i.e. planning through completion). As such, any significant changes or complexities should be known at a very early stage in the audit process.

### ***Option 2 – Limited targeted revisions to the CASS***

We agree that this approach would require more time and effort from the AASB to understand what changes are needed to support more effective scalability. However, we do not view time to implementation as a drawback if it will result in significant scope changes and practical solutions for audits of LCEs which will create considerable efficiencies in the future.

We acknowledge that maintaining close ties between the CASS and the ISAs may be difficult and cumbersome to track if the number of Canadian amendments increase. However, in our experience most of our clients who would meet the definition of an LCE operate primarily in Canada, hence there is no/limited concern of deviating from international standards from their perspective.

While we understand that LCE considerations under this approach will lengthen the CASSs further which may exacerbate the current challenges raised about the CASSs already being lengthy, overly detailed and challenging to navigate, we question how many practitioners revert back to the source CASS in daily practice. In practice, many practitioners often rely on "off-the-shelf" software and programs which contain generic forms and templates to ensure audits are being performed in accordance with the relevant standards.

Similar to option one (1) above, we agree that if the CASSs core requirements are needed to obtain a reasonable assurance opinion, then limited targeted revisions may not substantially reduce the work required to perform an LCE audit. The changes would have to be substantial enough to create efficiencies, otherwise targeted revisions would be inadequate.

### ***Option 3 – Targeted non-authoritative guidance***

We agree that developing non-authoritative guidance will increase the burden on practitioners to obtain additional education and training. Furthermore, given the non-authoritative guidance is not part of the CPA Canada standards, training would be administered by different instructors with different backgrounds, which increases the risk of certain standards being applied inconsistently in practice. Not only is this a non-comprehensive solution, but this is similar to the approach currently being applied and it has not created efficiencies for practitioners to date and continues to result in LCEs becoming frustrated with the audit process and associated fees.

### ***Our overall views***

In summary, we strongly agree that the current auditing standards create significant practical application challenges for practitioners and are ultimately restrictive and damaging LCEs in many regards. Core characteristics of LCEs include that they operate in distinct business environments, their financial statements often have limited users, there is often a reduced sensitivity to the financial results, there are no/limited significant or complex transactions, they have a simplified control environment and, in many cases, have limited resources to undertake costly audits.

While a focused review and targeted revisions to the CASSs (such as that suggested under Option 2) may be the ideal solution, we are concerned that any such changes would not be significant enough to have a meaningful impact to practitioners and their clients. Revisions that simply result in additional decision criteria to assess eligibility in certain instances would undoubtedly create additional confusion within the already complex standards and pose a higher risk of blended application or misapplication.

It is vital that the best interests of the industry and the users of financial statements remain at the forefront. If audits become too costly or challenging to perform, more LCEs will push for review or compilation engagements, which may not meet the needs of the end users.

In addition, we feel it is important to emphasize the purpose of an audit and the different approaches available to practitioners. An auditor's responsibility primarily lies in obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue





T 905 522 6555 F 905 522 6574 6th Floor, One James Street South Hamilton ON L8P 4R5

an opinion in that regard. The current standards create a significant compliance burden with respect to risk assessment and the controls environment, particularly for LCEs. Practitioners almost exclusively apply a fully substantive approach (as opposed to a combined approach which considers controls) when auditing LCEs because it most closely aligns with the primary objectives of an audit and the internal operating and reporting environment of LCEs. We feel that the application of a fully substantive audit approach will continue to be the most commonly applied approach to audits of LCEs in practice which should warrant meaningful audit reporting and compliance considerations given the control environment will not be relied upon and no opinion will be issued in such regard.

In conclusion, despite the risk to the profession of having too many standards/frameworks, it is likely in the best interest of all parties involved. A separate standard would:

- Provide a single point of reference for practitioners which will help reduce blended or misapplication of different standards;
- Create efficiencies in LCE audits that correspondingly reduce their associated costs and do not discourage their desirability in the market; and
- Keep the interests of practitioners and LCEs in-mind while providing a reliable product that meets the needs of the end users and considers their sensitivity to the financial results.

We thank you and the Auditing and Accounting Standards Board for your consideration and invitation to reply and provide our comments and feedback.

Sincerely,



Tony De Luca, CPA, CA  
Partner  
TD/mjm/s/lf



November 17, 2021

Eric Turner, FCPA, FCA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
TORONTO, ON M5V 3H2

Dear E. Turner:

**Re: AASB – Exploring Standard-Setting Options for Audits of Less Complex Entities**

This letter is to provide feedback as outlined in the discussion paper Exploring Standard-Setting Options for Audits of Less Complex Entities. The attachment sets out our responses to the specific questions listed in the discussion paper.

Yours truly,

A handwritten signature in black ink that reads "T. Clemett".

Tara Clemett, CPA, CA, CISA  
Provincial Auditor

cm/dd  
Attachment

	Question	Response
<b>Public interest considerations</b>		
1	Do you agree with the concerns stakeholders raised in the AASB's previous consultations in paragraph 8 and with the public interest consideration in paragraph 9? Are there other concerns or public interest considerations not identified in these paragraphs?	While some of the concerns raised in these paragraphs are valid, we do not think they warrant creating a separate standard for Less Complex Entities (LCEs). Issues related to complexity and scalability of the standards should be addressed directly in those specific standards, rather than in a separate standard.
<b>Option 1 – Separate standard for Less Complex Entity (LCE) audits</b>		
2	<p>The AASB is particularly interested in views on the questions below in the IAASB's Explanatory Memorandum about ED-ISA for LCE:</p> <ul style="list-style-type: none"> <li>a. Questions 3-6 relating to the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard)?</li> <li>b. Question 7(d) relating to the approach to the EEM. Specifically, do you believe ED-ISA for LCE includes sufficient EEM to help an auditor perform a high-quality audit?</li> <li>c. Question 13 relating to transitioning between ED-ISA for LCE and the ISAs. Specifically:                             <ul style="list-style-type: none"> <li>i. Do you agree with the view in paragraph 131 that it should be relatively rare for an audit of an entity to need to transition after engagement acceptance or continuance from using ED-ISA for LCE to using the ISAs?</li> <li>ii. Do you support the premise in paragraphs 26 and 133 that relevant ISA requirements cannot be used to "top-up" ED-ISA for LCE to address circumstances not contemplated in ED-ISA for LCE? For example, where ED-ISA for LCE does not contemplate an element of complexity that arises during the audit, the ISAs cannot be used.</li> <li>iii. Paragraph 139 sets out a list of matters the practitioner needs to consider if they determined that ED-ISA for</li> </ul> </li> </ul>	In general, do not support the use of a separate standard for LCE (see response to questions 4 and 5) in Canada; therefore have not provided specific comments on these questions.

	Question	Response
	LCE is no longer appropriate for use in an audit engagement. Is this list appropriate and complete?	
3	<p>Consider the Authority of the Standard in Part A of ED-ISA for LCE. If the proposed ISA for LCE was adopted in Canada:</p> <ul style="list-style-type: none"> <li>a. Will practitioners be able to use the proposed standard in the Canadian environment?</li> <li>b. In addition to the prohibitions already included in Part A of ED-ISA for LCE, are there specific types of entities or industries in Canada that you believe should be explicitly prohibited from using the proposed standard? Are there specific types of entities or industries in Canada that should be explicitly allowed to use the proposed standard?</li> <li>c. Are there specific thresholds or criteria you believe would be appropriate to establish in Canada for when the proposed standard may be used?</li> </ul>	<p>In general, do not support the use of a separate standard for LCE (see response to questions 4 and 5) in Canada; therefore have not provided specific comments on these questions.</p>
4	<p>If the AASB were to adopt ED-ISA for LCE in Canada:</p> <ul style="list-style-type: none"> <li>a. Do you believe users' perception may change in terms of the level of assurance provided in an audit engagement performed using the proposed standard compared to the CASs?</li> <li>b. How would performing an audit under the proposed standard differ, if at all, from performing an audit under the CASs? Do you anticipate specific efficiencies or benefits? Please explain why or why not.</li> <li>c. What implementation support do you believe would be required for the proposed standard (e.g., further guidance, training or tools) initially and on an ongoing basis?</li> </ul>	<ul style="list-style-type: none"> <li>a. Yes, users are very likely to perceive that the level of assurance provided using the proposed standard is less than assurance provided using the CASs. As noted in the discussion paper, we think this may create confusion for users.</li> <li>b. It is unlikely that any specific efficiencies or benefits will be achieved. As noted in 17(c) in the discussion paper, the core requirements in the ISAs (and CASS) are included in the Exposure Draft (ED) for LCE as they are needed to obtain a reasonable assurance opinion. Therefore, it will not reduce the amount of work effort required. In fact, it could increase the amount of work effort required because practitioners will need to develop separate methodologies for the separate standard of LCE audits. As well, as noted above, the use of a separate standard will likely create confusion for users, therefore practitioners may lose efficiencies because they are needing to explain the use of a separate standard to financial statement users.</li> <li>c. As noted above, we do not support the use of a separate standard. However, if the standard was implemented it would require significant further guidance, training and tools.</li> </ul>

	<b>Question</b>	<b>Response</b>
5	Do you believe that a separate standard for LCE audits for use in Canada is an appropriate solution? Please explain why or why not.	<p>No, a separate standard for LCE audits for use in Canada is not an appropriate solution. The drawbacks explained in 17(a) to (f) articulate well why this is not appropriate. These drawbacks outweigh any potential benefits that the AASB has outlined in the discussion paper.</p> <p>The ISAs (and CASs) should be consistently applied to all audits regardless of complexity. In general, if the requirements of the ISAs (and the CASs) are perceived to be unclear and too challenging to determine how to apply to an audit that is less complex, then efforts should be taken to improve the individual ISAs (and CASs) instead of creating a separate standard for LCEs, or providing better application guidance to practitioners.</p>
6	If you believe that a separate standard for LCE audits for use in Canada is an appropriate solution, do you support the adoption of ED-ISA for LCE? Please explain why or why not	A separate standard for LCE audits for use in Canada is not an appropriate solution.
7	If the AASB were to adopt ED-ISA for LCE in Canada, would you suggest any Canadian amendments? If so, what would they be?	A separate standard for LCE audits for use in Canada is not an appropriate solution.
<b>Option 2 – Limited, targeted revisions to the CASs</b>		
8	Do you believe that making limited, targeted revisions to the CASs is an appropriate solution? Please explain why or why not.	It is possible that making limited revisions to the CASs could help address perceived challenges to applying the CASs to LCEs. However, as noted in 21(b), this could create challenges and confusion as the number of differences between the CASs and ISAs increases.
9	Do you believe that the requirements identified in the AASB's previous consultations, set out in Appendix I, are significantly challenging to apply in LCE audits? Are other requirements in the CASs significantly challenging to apply in LCE audits that may need revisions? If so, what are they?	No, the requirements identified in Appendix I are not significantly challenging to apply in LCE audits.
10	What limited, targeted revisions to the CASs, including incorporating elements from ED-ISA for LCE (e.g., EEM), would address the significant challenges you believe exist in applying the CASs to LCE audits?	See response to question 9.

	<b>Question</b>	<b>Response</b>
<b>Option 3 – Targeted non-authoritative guidance</b>		
11	Do you believe that developing targeted non-authoritative guidance is an appropriate solution? Please explain why or why not.	Yes, this is the most appropriate solution. Option 1 & Option 2 are not appropriate for reasons described above. This option would address the specific areas that have been identified as challenging.
12	If the AASB focused on developing targeted non-authoritative guidance, for which areas or specific requirements in the CASs would it be most helpful? What guidance should the Board prioritize, and why?	The areas identified in Appendix I would likely be most helpful since stakeholders have already identified these areas as challenging to apply.
<b>Other</b>		
13	What other options or matters, if any, should the AASB consider as it deliberates the direction of its work in this area?	None identified.
14	If the most appropriate way forward is a combination of options, how should the AASB prioritize them?	See above. None identified.

Montréal, le 9 décembre 2021

Monsieur Eric Turner, FCPA, FCA  
Directeur, Normes d'audit et de certification  
Conseil des normes d'audit et de certification  
277, rue Wellington Ouest  
Toronto (Ontario) M5V 3H2

Monsieur,

Vous trouverez ci-joint les commentaires du Groupe de travail technique — Certification de l'Ordre des comptables professionnels agrées du Québec, concernant le document de travail intitulé « *Solutions possibles en matière de normalisation pour les audits d'entités peu complexes* ».

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veillez prendre note que ni l'Ordre des comptables professionnels agrées du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, comme décrit dans le déni de responsabilité joint à la présente.

Veillez agréer, Monsieur Turner, mes salutations distinguées.

Kim Lemire, CPA auditrice, CA  
Représentante du groupe de travail technique — Certification

p. j. Déni de responsabilité et commentaires

## DÉNI DE RESPONSABILITÉ

Les documents préparés par les groupes de travail de l'Ordre des comptables professionnels agréés du Québec (Ordre) ci-après appelés les « commentaires », sont fournis selon les conditions décrites dans la présente, pour faire connaître leur opinion sur des énoncés de principes, des documents de consultation, des exposés-sondages préliminaires ainsi que des exposés-sondages publiés par le Conseil des normes comptables, le Conseil des normes d'audit et de certification, le Conseil sur la comptabilité dans le secteur public, le Conseil sur la gestion des risques et la gouvernance et d'autres organismes.

Les commentaires fournis ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail de l'Ordre ou, de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via le Groupe de travail dans les avis exprimés ou les positions prises.



## **MANDAT DES GROUPES DE TRAVAIL**

Les groupes de travail de l'Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux, dans l'industrie et dans l'enseignement ainsi que le point de vue d'autres personnes concernées œuvrant dans des domaines d'expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et, sauf indication contraire, ces commentaires ont fait l'objet d'un consensus parmi les membres des groupes de travail ayant participé à cette analyse.

Les commentaires formulés ne font l'objet d'aucune sanction de l'Ordre. Ils n'engagent pas la responsabilité de celui-ci.

**Il est à noter que les membres du groupe de travail n'ont pas répondu à toutes les questions de ce document de travail. Lors d'une rencontre, ils ont plutôt partagé leur opinion par rapport aux trois solutions envisagées par le CNAC et ne sont pas entrés en profondeur dans toutes les exigences de la norme ISA proposée pour les entités peu complexes (EPC).**

**Question d'intérêt public**

**1. Selon vous, les points énumérés au paragraphe 8 (problèmes qui sont ressortis des consultations menées précédemment auprès des parties prenantes) et au paragraphe 9 (questions d'intérêt public) brossent-ils un portrait juste et complet de la situation? Y a-t-il d'autres problèmes ou questions d'intérêt public à ajouter?**

Les membres mentionnent que les points énumérés aux paragraphes 8 et 9 par le CNAC brossent un portrait juste et complet de la situation.

De plus, les membres soulignent qu'ils sont en accord avec le constat relevé par le CNAC suite à ses consultations de 2018-2019, soit :

« Les audits de la plupart des entités impliquent des éléments de complexité et des éléments de simplicité. Ce n'est que la plus simple des entités qui n'ont aucun élément de complexité. Les parties prenantes ont décrit les défis qu'elles rencontrent lors de l'adaptation des normes ISA en discutant des éléments les moins complexes des opérations et des états financiers d'une entité. **Ils n'ont pas décrit les défis basés sur une description ou une définition de l'entité.** Sur la base de ce que nous avons appris, les défis liés à l'application des normes ISA **nécessitent une solution qui se concentre sur la complexité des éléments des opérations et des états financiers d'une entité plutôt que sur la complexité de l'entité** ».

**Option 1 : Adopter une norme distincte pour les audits d'EPC**

*Les membres n'ont pas répondu spécifiquement aux questions 2 a), b) et c) ii), 3 c), 4 et 6. Ils ont préféré répondre à la question 5 en premier.*

**5. À votre avis, l'adoption d'une norme distincte pour les audits d'EPC au Canada est-elle une solution appropriée? Veuillez justifier votre réponse.**

Les membres **ne sont pas en faveur** de l'adoption d'une norme distincte pour les audits d'EPC au Canada.

D'entrée de jeu, les membres croient plutôt que les problèmes énumérés dans les paragraphes 8 et 9 ne sont pas liés aux contenus des NCA, mais plutôt à leurs **difficultés d'application** dans des contextes précis et variés et aussi à une **mauvaise compréhension** et une divergence d'interprétation des NCA en général par les auditeurs. En somme, l'adoption d'une norme distincte ne va pas régler les enjeux d'application et va complexifier le tout.

Les NCA actuelles sont rédigées pour permettre d'auditer tous types d'entités, que ce soit une grande banque ou un très petit organisme sans but lucratif. Les membres ne pensent pas que l'ajout d'une norme distincte d'audit pour les EPC soit nécessaire, mais qu'une **meilleure adaptabilité** des NCA actuelles est souhaitable. Ceci devrait se refléter en :

- clarifiant les normes qui peuvent être adaptées;
- donnant des recommandations sur la documentation des éléments peu complexes ou l'absence d'un élément (par exemple que doit contenir la documentation pour se conformer à la NCA 540 quand il n'y a aucune estimation comptable dans les états financiers);
- préparant des ressources d'aide par types de transactions et par secteurs; et
- améliorant la compréhension des NCA actuelles afin que les auditeurs soient mieux outillés à exercer leur jugement professionnel.

Certains cabinets se sont développés des programmes d'audit et des outils adaptés pour les petites entités pour plus d'efficacité et d'efficience dans la gestion des dossiers d'audit et des équipes de travail. Toutefois, ce ne sont pas tous les auditeurs qui ont une bonne compréhension des normes ou les ressources nécessaires leur permettant d'adapter leurs outils à leur clientèle. Les auditeurs se fient aveuglément aux listes de contrôle disponibles sur le marché lorsqu'ils effectuent l'audit au lieu de les adapter à la situation de chacun de leurs clients. C'est pourquoi des **outils d'aide ou lignes directrices** du normalisateur pourraient mieux guider les auditeurs sur les objectifs et l'esprit des NCA et faciliter le développement de méthodologie d'audit adaptée à la complexité de leurs missions.

Les membres soulignent que l'argument **coûts-avantages** ne devrait pas être un argument en faveur ou non d'une option, car pour une profession qui vise à servir l'intérêt public et la réalisation de missions de grande qualité, il y a un risque de niveler cette qualité vers le bas, alors qu'actuellement, nous voyons une tendance des organismes de normalisation de hausser la barre de qualité au niveau des audits.

À la lecture du projet de norme distincte pour les audits d'entités peu complexes (EPC), certains membres n'ont pas trouvé que c'était vraiment plus simple puisque les exigences sont les mêmes que les NCA actuelles. L'ajout d'une norme distincte n'aidera pas la situation actuelle à simplifier les missions d'audits, mais les membres croient plutôt que cela va complexifier la situation. Voici quelques exemples de complexification qui ont été énoncés :

- Déterminer si leur client répond à la définition d'une entité peu complexe ou non?
- Transitionner de la norme EPC aux NCA actuelles lorsqu'une entité devient plus complexe, soit d'une année à l'autre ou entre l'étape de planification et de l'exécution de la mission.

Ainsi, ces deux exemples viendront alourdir les exigences de documentation dans les dossiers d'audit.

Il est à noter que tous les membres ont soulevé le fait que même dans les entités peu complexes, il y a des **éléments complexes**. Il y a des éléments complexes dans la majorité de la clientèle d'audit. Une entité est un mélange d'éléments complexes et d'éléments non complexes qui vont évoluer dans le temps et qui ne seront pas nécessairement les mêmes d'un exercice à l'autre, comme l'a relevé le CNAC. Cette complexité s'exprime davantage en fonction d'éléments précis (postes, opérations, transactions particulières, exigences de secteur) qu'en fonction de l'entité comme telle.

Une EPC est définie comme une entité dont les **activités** et les **états financiers** sont peu complexes. Les membres ont soulevé plusieurs préoccupations face à cette définition :

- Quels sont les facteurs qui déterminent la notion de « peu complexe » (utilisateurs, tiers, clients ou auditeurs)? Le degré de complexité est subjectif et dépend aussi de l'expérience de chaque auditeur. Desservir un client dans un nouveau secteur d'activité peut être complexe pour un auditeur alors que pour un autre ceci peut être très simple. Cela peut conduire à une application incohérente de la norme pour les EPC.
- Comment déterminer la complexité dans un contexte de co-audit et que chaque cabinet fait une évaluation différente de l'entité au niveau de sa qualification à être une EPC?
- Est-ce que les clients devront être en accord avec l'utilisation de cette norme d'audit qui peut être perçue comme de moindre qualité ou effectuée à moindre coût?

Déterminer la complexité d'une entité requiert beaucoup de jugement professionnel et s'avère une décision beaucoup plus complexe que celle d'utiliser certaines procédures d'audit ou non. C'est pourquoi les membres considèrent que cette norme distincte ne simplifiera pas la planification et l'exécution des missions d'audit, mais risque d'apporter davantage de confusion chez les auditeurs.

Les membres sont préoccupés par la **perception que pourraient avoir les utilisateurs des états financiers** à l'effet que l'audit réalisé soit de moins grande qualité. Ainsi, ils sont en accord avec le deuxième inconvénient énuméré pour l'option #1. Si cette norme distincte doit avoir réellement le même niveau d'assurance raisonnable qu'une opinion d'audit selon les NCA, alors les membres se questionnent sur la raison d'émettre un rapport d'audit différent mentionnant que la mission a été réalisée conformément à la norme d'audit pour les EPC. Il revient au jugement professionnel de l'auditeur de déterminer la méthodologie et les procédures d'audit à appliquer lors de sa mission. C'est pourquoi, selon les membres, la conclusion dans le rapport d'audit doit être la même, peu importe la méthodologie et/ou la norme choisie par l'auditeur.

En plus de l'enjeu de la perception des utilisateurs, les membres croient qu'il y a un risque d'augmenter la **confusion déjà existante** sur le **marché** entre les **différents types de missions** (missions d'audit (selon les NCA), d'examen et de compilation). En effet, la **notion de niveau d'assurance** (raisonnable ou limitée) est déjà très mal comprise par les bailleurs de fonds et les utilisateurs en général. L'ajout d'une mention dans le rapport à l'effet que l'audit a été réalisé selon la norme d'audit pour les entités peu complexes ne fera qu'accentuer la confusion déjà présente pour les utilisateurs des états financiers et ceci pourra être perçu comme l'introduction d'un troisième niveau d'assurance.

***2. Parmi les questions que pose l'IAASB dans les notes explicatives de son exposé-sondage, voici celles qui intéressent particulièrement le CNAC :***

***c) la question 13 sur le passage de la norme ISA pour les EPC [en projet] aux normes ISA. Le CNAC souhaite surtout connaître votre avis sur les questions suivantes :***

***i. Selon le paragraphe 131 des notes explicatives, il devrait être assez rare de devoir passer de la norme ISA pour les EPC aux normes ISA dans le cadre d'une mission d'audit qui a déjà été acceptée ou maintenue. Êtes-vous de cet avis?***

Les membres sont en désaccord avec cette affirmation. Au cours du déroulement de nombreux audits, il y a des problématiques, des enjeux ou des éléments qui sont découverts par l'auditeur que le client n'avait pas mentionné lors de l'étape de la planification. Alors, selon eux, cette situation exposée dans la question arrivera fréquemment et cela complexifiera l'utilisation de cette norme.

*ii. Selon les paragraphes 26 et 133 des notes explicatives, le professionnel en exercice qui est confronté à une situation dont la norme ISA pour les EPC [en projet] ne traite pas ne peut suppléer cette norme en utilisant les exigences pertinentes des normes ISA. Par exemple, s'il découvre pendant l'audit un élément complexe qui n'est pas prévu dans la norme ISA pour les EPC [en projet], il ne peut utiliser les normes ISA pour cet élément. Partagez-vous ce point de vue?*

Les membres ne partagent pas ce point de vue. Cela ne donne aucune marge de manœuvre aux auditeurs dans l'application de cette norme distincte. Si une telle situation survient, cela va augmenter le temps et le coût de l'audit en plus d'augmenter la complexité de la mission.

*3. Passons à l'autorité de la norme (Partie A de la norme ISA pour les EPC [en projet]). Si la norme ISA pour les EPC était adoptée au Canada :*

*a) les professionnels en exercice seraient-ils en mesure de l'appliquer dans le contexte canadien?*

Les membres soulignent que **peu de leurs clients se qualifieraient** dans le champ d'application de la norme distincte pour les audits d'EPC, car la majorité de leurs clients ont des éléments ou opérations complexes, sont des entités cotées ou font partie d'audit de groupe. Il est à noter qu'au Canada, pour les entités moins complexes, les clients demandent généralement que les professionnels en exercice effectuent des missions d'examen ou de compilation et non des audits.

*b) Y a-t-il, au Canada, des catégories d'entités ou des secteurs pour lesquels il faudrait au contraire permettre expressément l'utilisation de la norme?*

Des membres ont soulevé des **enjeux avec le champ d'application** de la norme proposée. Ils sont en désaccord d'exclure d'entrée de jeu les entités cotées ainsi que les audits de groupe du champ d'application. Ils mentionnent qu'il y a des audits d'entités cotées qui s'avèrent être très simples et peu complexes. De plus, beaucoup d'audits de groupe sont composés d'entités peu complexes dans le contexte canadien. Ils ne comprennent pas la position de l'IAASB de les exclure alors que des entités peu complexes se retrouvent dans ces catégories.

Les membres croient que l'exclusion d'entrée de jeu des entités cotées du champ d'application démontre que le normalisateur réalise l'enjeu de perception face à une

assurance de moindre qualité. Il est ainsi conscient que les utilisateurs associeront l'application de cette norme comme un audit fournissant un niveau d'assurance moindre qu'un audit réalisé selon les NCA actuelles.

***7. À supposer que le CNAC adopte la norme ISA pour les EPC, y aurait-il des modifications à apporter pour le Canada? Si oui, lesquelles?***

Oui, comme mentionné plus haut, il y aurait des modifications à apporter pour le Canada au niveau du champ d'application. Selon les membres, le champ d'application serait à retravailler pour inclure toutes les entités qui répondent à la définition d'une EPC et non d'exclure d'entrée de jeu les entités cotées et les audits de groupe. De plus, la définition d'entité peu complexe devrait être plus claire et moins arbitraire pour faciliter l'application de cette norme distincte par les auditeurs.

***Option 2 : Apporter des modifications limitées et ciblées aux NCA***

***8. Considérez-vous que l'apport de modifications limitées et ciblées aux NCA est une solution appropriée? Veuillez justifier votre réponse.***

Les membres ne considèrent pas cette option comme valable en elle seule. Toutefois, certains membres mentionnent qu'il pourrait y avoir une combinaison des options 2 et 3 et que cela pourrait être une autre option intéressante à envisager.

Voici les points exposés par ces membres pour cette 4<sup>e</sup> option :

Certains éléments pourraient être intégrés dans les NCA. Toutefois, il est important de garder la flexibilité dans les normes et permettre la latitude pour exercer son jugement professionnel. Des indications ciblées ou des balises devraient venir compléter le tout.

Si nous voulons demeurer une profession qui utilise le jugement professionnel, il faut éviter d'être trop précis dans les indications. Cela vient diluer la plus-value de la profession. À la base, la formation d'un CPA est pour lui permettre d'utiliser son jugement professionnel.

***9. Croyez-vous que les exigences mentionnées à l'Annexe I (exigences qui sont ressorties des consultations menées précédemment par le CNAC) posent des difficultés importantes lorsqu'il s'agit d'auditer des EPC? Y a-t-il d'autres exigences***

***des NCA qui sont particulièrement difficiles à appliquer dans les audits d'EPC et qui pourraient devoir être modifiées? Si oui, lesquelles?***

Selon l'Annexe 1 du document de travail, des normes ont été identifiées par la CNAC, soit les NCA 315 (actuelle), NCA 240, NCA 260 et NCA 230. Les membres suggèrent d'ajouter à cette liste la **NCA 530**, *Sondages en audit* et la **NCA 600**, *Audits d'états financiers de groupe*.

Aussi, ils mentionnent un élément supplémentaire à ajouter pour la **NCA 230**, soit la façon de justifier ou documenter lorsqu'une norme ou une situation n'est pas applicable dans l'audit (par exemple : comment documenter la NCA 570 quand il n'y a pas d'enjeu de continuité d'exploitation dans l'entité).

De plus, ils mentionnent que malgré la volonté du CNAC d'améliorer la compréhension de la NCA 315 révisée, cette norme, qui est très longue et comprend de nombreuses modalités d'application, ne permet pas de conclure que l'objectif de réduction de la complexité a été atteint. Il y a encore beaucoup de complexité d'application et elle ne sera pas nécessairement plus facile à appliquer à des EPC.

***10. À votre avis, quelles modifications limitées et ciblées faudrait-il apporter aux NCA ou, s'il y a lieu, quels éléments du projet de norme ISA pour les EPC (par exemple certains CEE) faudrait-il y ajouter pour résoudre les difficultés importantes que pose l'application des NCA aux audits d'EPC?***

La majorité des membres pensent qu'il serait important que le CNAC **n'ajoute pas d'indications supplémentaires** aux NCA.

Les membres croient que ce sont les documents d'indications ciblées qui devraient évoluer dans le temps et non les normes. Des normes plus générales permettraient une plus grande propension à s'adapter aux changements et ainsi la normalisation serait plus agile face aux nouvelles réalités du marché.

***Option 3 : Élaborer des indications ciblées ne faisant pas autorité***

***11. Selon vous, l'élaboration d'indications ciblées ne faisant pas autorité est-elle une solution appropriée? Veuillez justifier votre réponse.***



**Tous les membres privilégient la solution #3.** Cette solution n'augmentera pas la complexité des normes ou ne nécessitera pas l'ajout de considérations pour les EPC directement dans les normes, comme à l'option #2). Le CNAC (ou autres groupes) aura plus de flexibilité et de rapidité à apporter des modifications aux indications publiées et ne sera pas contraint par un processus long et lourd de consultation. Les membres mentionnent que cette option est la meilleure solution pour **aider les auditeurs** à appliquer les NCA aux audits des EPC et mieux comprendre les NCA en général.

Ils mentionnent que cette solution doit être combinée avec des outils et des ressources adaptés à différents contextes précis et aussi à des NCA plus difficiles d'application.

Il est à mentionner que le projet de norme distincte de l'IAASB pourrait s'avérer être utilisé comme une ressource de type guide ne faisant pas autorité pour aider les auditeurs. En effet, l'avantage de cette norme c'est qu'elle est écrite de façon à suivre les étapes de la mission d'un audit et cette structure facilite la compréhension des exigences.

*Les membres n'ont pas répondu spécifiquement aux questions 12 et 14.*

### **Points divers**

#### **13. Le cas échéant, quelles autres options ou quels autres points le CNAC devrait-il prendre en compte dans ses délibérations sur l'orientation à donner à ses travaux à cet égard?**

Certains membres mentionnent qu'il pourrait aussi avoir l'option de rédiger des Notes d'orientation en certification. Certaines situations complexes pourraient être adressées par les NOV. Cela pourrait être une bonne solution dans certaines situations. Les NCA adresseraient 98 % des situations et les NOV les 2 % de particularités.