



Invitation to Comment

Auditing and Assurance Standards Board

Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits

February 2016

**COMMENTS TO THE AASB MUST BE RECEIVED BY
APRIL 15, 2016**

**COMMENTS TO THE IAASB MUST BE RECEIVED BY
MAY 16, 2016**

Respondents are asked to email their comment letters (in a Word file) to: ed.assurancestds@cpacanada.ca
Please address your comments to:

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

This Invitation to Comment reflects preliminary suggestions made by the International Auditing and Assurance Standards Board (IAASB).

Individuals and organizations are invited to send written comments on the Invitation to Comment preliminary suggestions. Comments are requested from those who agree with the Invitation to Comment as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the preliminary suggestions in the Invitation to Comment should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Auditing and Assurance Standards Board (AASB) is issuing this Invitation to Comment to encourage Canadian stakeholders to provide input on the International Auditing and Assurance Standards Board's (IAASB):

- Invitation to Comment, "Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits;" and
- Overview of the above-named Invitation to Comment.

Background

The IAASB is working to improve audit quality, primarily by reviewing its International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1, the standard addressing quality control for firms. The IAASB's consultation focuses on the following topic areas:

- professional skepticism;
- quality control; and
- group audits.

IAASB Overview

The [IAASB's Overview](#) outlines the public interest issues the IAASB believes should be addressed as a matter of priority, provides high-level insight into the direction the IAASB could take and poses questions to stakeholders.

The Overview is intended to facilitate responses from:

- financial statement users;
- preparers and audit committees; and
- academics.

Appendix A of this document outlines the issues on which the AASB is particularly interested in obtaining views from these stakeholders.

IAASB Invitation to Comment

The [IAASB's Invitation to Comment](#) goes into more depth about:

- how the IAASB's standards currently address various matters;
- concerns the IAASB has noted about these matters;
- possible actions the IAASB may take in response, including highlighting specific areas in the standards that the IAASB might improve to enhance audit quality; and

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- more specific questions the IAASB would like to have answered.

The IAASB's Invitation to Comment is intended to facilitate responses from:

- firms and auditors, including members of the Forum of Firms, small and medium practices, and supreme audit institutions;
- national auditing standard setters;
- regulators and audit oversight bodies;
- professional accountancy organizations; and
- others with experience with the standards or an interest in the technical aspects of the IAASB's projects.

Appendix B of this document outlines the issues on which the AASB is particularly interested in obtaining views from these stakeholders.

Importance of Canadian stakeholder responses

The AASB is committed to adopting the ISAs as Canadian Auditing Standards (CASs). Therefore, the AASB actively discusses and analyzes the IAASB's issues, initiatives and topics and the effect they may have in the Canadian environment or on Canadian stakeholders.

The business environment in Canada, as well as internationally, is becoming more complex in organizational structure (for example, the use of shared service centres). In turn, the auditor's approach and risk assessment face new challenges. Considering these challenges is important to ensuring that the auditing standards remain fit for purpose. The AASB believes that Canadian viewpoints are important in influencing the direction the IAASB takes in amending its standards.

Responding to the AASB Invitation to Comment

Appendix A and B to this Invitation to Comment identify the issues on which the AASB is particularly interested in receiving feedback. Because of the length of the documents and the complexity of some of the issues, the Appendices may be a useful guide for stakeholders who do not wish to address all of the IAASB's questions.

The AASB would welcome views on the following questions:

1. Regarding the specific issues identified for your stakeholder group in the Appendices:
 - (a) How important are the issues described by the IAASB in the context of improving audit quality?

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- (b) For the three topic areas, are you aware of any issues particular to the Canadian environment that the AASB should consider in addition to the issues identified by the IAASB? If yes, please describe.
 - (c) Are there any specific industry groups (for example, mining, oil and gas, public sector, etc.), where you believe the issues identified by the IAASB are particularly relevant or may require particular attention? If yes, please describe.
 - (d) Will any of the IAASB's possible actions be particularly challenging to apply effectively by small and medium-sized practitioners on audits of varying sizes? If yes, please describe.
 - (e) Do you foresee any significant implementation challenges with the IAASB's possible actions? If yes, please describe.
2. The IAASB and AASB are not the only organizations that can influence audit quality. There are other stakeholders, both internationally and in Canada, that have a role. The AASB would like to know your views on what others, both in Canada and internationally, can do to improve audit quality.
 3. Are there any other issues that you would like to highlight for the AASB relating to professional skepticism, quality control or group audits, in addition to those issues identified by the IAASB? If yes, please describe.

The deadline for providing your comment letter to the AASB is April 15, 2016. You may email your comments (in a Word file) to: ed.assurancestds@cpacanada.ca

Responding to the IAASB Overview and Invitation to Comment

Canadian stakeholders are encouraged to provide comments on all questions within the Overview, the Invitation to Comment, or both, as appropriate, and provide the AASB with a copy of the response. Comments should be sent directly to the IAASB by the comment deadline of May 16, 2016. If copies of responses to the IAASB are received by the AASB before April 15, 2016, the AASB will be able to take Canadian stakeholders' comments into account in formulating its own response to the IAASB.

Comments are most helpful if they are related to a specific question in the IAASB's documents. When a respondent agrees with the IAASB's preliminary suggestions, it will be helpful for the AASB to be made aware of this view.

IAASB Overview – Relevant stakeholders and key issues identified by the AASB

Financial statement users

The AASB believes it is critical to effective standard setting to understand the financial statement users' views on what information is important to them. The AASB is particularly interested in financial statement users' views on the following issues in the Overview:

- public interest (paragraph 4);
- professional skepticism (paragraphs 15-44);
- transparency reporting (paragraphs 72-74); and
- engagement quality control reviews and reviewers (paragraphs 79-83).

Preparers and audit committee members

Many of the issues outlined in the Overview will impact how auditors perform their audit and, therefore, have a resulting impact on the entity's preparers and audit committees. As a result, the AASB recognizes the importance of involving preparers and audit committees in standard-setting discussions. In particular, the Canadian environment has a large number of group audit scenarios, including industries such as junior mining, which may pose unique Canadian challenges. The AASB would like to hear views from audit committees and preparers on the following issues included in the Overview:

- public interest (paragraph 4);
- engagement quality control reviews and reviewers (paragraphs 79-83); and
- group audits (paragraphs 96-97).

Academics

A common theme throughout many of the issues discussed in this consultation is the importance of how professional skepticism and professional judgment are applied in the audit. Given its pervasive qualities, the AASB is particularly interested in the views of academics on the following areas in the Overview:

- public interest (paragraph 4); and
- professional skepticism (paragraphs 15-44).

IAASB Invitation to Comment – Relevant stakeholders and key issues identified by the AASB

The AASB believes that many, if not all, of the issues outlined in the Invitation to Comment are relevant to:

- Canadian practitioners;
- their provincial and regional CPA bodies; and
- audit regulators.

Professional skepticism

Professional skepticism is essential in all aspects of the audit – from planning and risk assessment through to the critical assessment of audit evidence in forming the auditor’s conclusions. The AASB is particularly interested in feedback regarding the areas being explored within professional skepticism in the Invitation to Comment (paragraphs 15-44).

Quality control

Included in the Invitation to Comment is a detailed discussion regarding a proposed change to ISQC 1 to include a quality management approach. The AASB would like to understand how a quality management approach may impact Canadian practitioners, in particular, small and medium practitioners. Additionally, recent inspection findings of certain firms suggest there may be concerns with quality control systems, and the level of involvement and oversight of senior engagement team members (including the engagement partner) on some audits. The AASB is particularly interested in feedback regarding the following issues in the Invitation to Comment:

- the quality management approach (paragraphs 50-67);
- engagement partner roles and responsibilities (paragraphs 69-86);
- others involved in the audit (paragraphs 87-104);
- engagement quality control reviews and reviewers (paragraphs 136-146); and
- monitoring and remediation (paragraphs 147-159).

Group audits

As noted above, certain Canadian inspection findings have highlighted the importance of the involvement of the engagement partner in the audit. This is of particular relevance in a group audit scenario. The AASB also recognizes the Canadian environment has a

large number of group audits, which may pose unique Canadian challenges that are important to consider. As a result, the AASB is particularly interested in feedback regarding the following issues in the Invitation to Comment:

- acceptance and continuance of the group audit engagement (paragraphs 204-217);
- using the work of the component auditors (paragraphs 226-242);
- identifying and assessing the risks of material misstatement in a group audit (paragraphs 243-253);
- responding to identified risks of material misstatement in a group audit (paragraphs 262-292); and
- review and evaluation of the work of component auditors by the group engagement team (paragraphs 293-303).

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