



Conseil des normes  
d'audit et de certification

**Modifications de portée limitée proposées pour la NCA 700, *Opinion et rapport sur des états financiers*, et la NCA 260, *Communication avec les responsables de la gouvernance*, par suite de modifications apportées au Code de l'IESBA qui obligent le cabinet à rendre public, le cas échéant, le fait qu'il s'est conformé aux règles d'indépendance applicables aux entités d'intérêt public**

**Réponses à l'exposé-sondage**

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**Septembre 2022**

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<b>Réponse</b>	<b>Organisation</b>
1.	MNP
2.	CCRC

September 16, 2022

SENT ELECTRONICALLY

Karen DeGiobbi, CPA, CA  
Director, Accounting and Assurance Standards Board  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

**Re: Proposed Narrow Scope Amendments to CAS 700, *Forming an Opinion and Reporting on Financial Statements* and CAS 260, *Communication with Those Charged with Governance Exposure Draft***

Dear Ms. DeGiobbi,

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

We support the Auditing and Assurance Standards Board’s (“the AASB”) vital role in monitoring revisions to standards issued by the International Auditing and Assurance Standards Board (the “IAASB”) to ensure that they remain in the Canadian public interest. In this instance, we do not believe the proposed changes to the IAASB standards should be adopted in Canada at this time. We believe changes to the AASB standards should be delayed until such time as the Canadian Independence Task Force (the “ITF”) has determined how it plans to adopt the recently approved changes to the definition of a public interest entity (“PIE”) and related heightened independence requirements within the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the “IESBA Code”). Linking the auditor’s report to the CPA Canada Harmonized Rule of Professional Conduct and provincial and territorial ethical requirements (collectively, the “Rules”) automatically creates a disclosure lens through which future modifications to the Rules would be evaluated, and/or risks unintended consequences to the auditor’s report.

We provide our responses to the AASB’s specific questions below.

***Question 1: Do you agree that the AASB should adopt the IAASB’s proposed revisions?***

We do not agree that the AASB should adopt the IAASB’s proposed revisions.

The CPA Canada Harmonized Rule of Professional Conduct and provincial and territorial ethical requirements (collectively, the “Rules”) currently are not completely aligned with the IESBA Code. Rather, they specifically reflect a myriad of distinctions from the IESBA Code which are relevant to Canada’s provinces and territories. Routine modification to the Canadian Auditing Standards (the “CAS”) based solely on alignment of the International Standards on Auditing to the IESBA Code may therefore be misaligned in a number of ways with Canadian needs, underpinning our Rules.

Disclosure in the auditor’s report does not change the independence requirements that should apply. Moreover, such a disclosure in the auditor’s report presupposes that a reader would understand both the scoping as a PIE, the differential independence requirements that apply, and further, any provincial and/or territorial variations in such requirements. Appreciating the complexity of that disclosure requires technical understanding of PIE scoping and provincial and territorial independence requirements applicable to reporting issuers and other entities. We believe a reader should find the auditor’s report to be as simple and clear as possible – that the auditor is either independent or not independent. A financial statement user should not need to interpret the meaning that an auditor is differentially independent.

Further, financial statement users may place undue higher reliance on the audit opinion of PIEs compared to other entities despite the auditor’s being independent under the rules in both scenarios. This may exacerbate the expectation gap that already exists. Alternately, a financial statement user may assume that auditor’s reports without a PIE independence disclosure are less reliable. These entities may face additional barriers to accessing capital or developing business relationships because of a misperception that the standard of audit performed is somehow lesser.

Another factor to consider is the impact this may have on service providers including insurers used by practitioners. By referring to independence requirements related to PIEs, the broader public may infer that the auditor’s responsibilities extend to beyond the shareholder’s group which may reduce the availability of auditors or increase costs. Both of these may create unintended negative impacts on audit quality and capacity.

Furthermore, in situations where an entity changes from a PIE to a non-PIE, this could create confusion for the financial statement users.

Considering the above, we believe that since there is no current requirement for disclosure of independence requirements for certain entities under the Rules, no corresponding amendments to CAS 700 should be made at this time. If amendments to the Rules are made to require such disclosure, only then should the AASB consider amendments to the CAS to determine where to best disclose this information.

While we do not agree that the auditor’s report is an appropriate mechanism for disclosing the implementation of differential independence requirements by firms, we concur with the proposed amendments to CAS 260 to the extent that the Rules will require disclosure to those charged with governance when a firm has applied differential independence requirements for certain entities through disclosure in the Audit Service Plan or Independence Letter.

**Question 2: Do you agree that the AASB should not change the wording related to relevant ethical requirements in the illustrative reports in CAS 700?**

We agree that the AASB should not change the wording related to relevant ethical requirements in the illustrative reports in CAS 700.

**Question 3: Do you believe there would be any unintended consequences in the Canadian environment?**

As outlined in our response to question 1 above, we believe there would be unintended consequences in the Canadian environment. The capital market in Canada consists of many smaller reporting issuers and companies operating in venture capital markets. Historically, the unique environment in which these entities operate has led to amendments in the Rules to provide necessary relief to these types of listed entities. Adoption of the IAASB's proposed revisions may have unintended consequences as the revisions may not take into account the unique environment that these entities operate in leading to a risk that the information communicated in the auditor's report no longer best serves the Canadian public interest.

Therefore, amendments to CAS 700 should only be considered once changes to the Rules related to PIEs have been made and the impact of these changes can be fully understood in the context of Canadian entities. At present, unique Canadian entities may potentially be scoped into the definition of a PIE, which could create further challenges or confusion for financial statement users of these entities which may have not previously been subject to differential independence requirements in Canada.

**Question 4: Do you believe the proposals would create any implementation challenges for practitioners in Canada?**

We find it challenging to respond to this question without the opportunity to understand how the ITF will adopt the PIE definition. Based on the nature of future changes, we believe this could result in confusion for financial statement users and, as such, create challenges for practitioners on implementation.

**Question 5: Do you have any concerns with the proposed effective date?**

We support the proposed effective date of periods beginning on or after December 15, 2024, for changes proposed to CAS 260. As mentioned in our response to the questions above, to avoid any unintended consequences or implementation challenges, we believe that the AASB should consider deferring adoption of the corresponding changes to CAS 700 until such time as the Rules are revised for the definition of PIE.

We appreciate the opportunity to provide feedback on this ED and look forward to reviewing the AASB's deliberations and responses to comments received.

MNP LLP is Canada's fifth largest chartered professional accountancy and business advisory firm. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous,

medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

**MNP LLP**

*Monique Côté*

Monique Côté, CPA, CA  
Leader, Ethics & Independence

September 23, 2022

## Submitted electronically

Auditing and Assurance Standards Board (AASB)

Bob Bosshard, AASB Chair

Karen DeGiobbi, Director, AASB

### **Response to AASB Exposure Draft – Proposed Narrow-scope amendments to CAS 700, Forming an Opinion and Reporting on Financial Statements and CAS 260, Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities**

CPAB is Canada’s independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. Our mandate is to promote high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

CPAB has reviewed the exposure draft and contributed to the International Forum of Independent Audit Regulators (IFIAR) response to the exposure draft submitted directly to the International Auditing and Assurance Standards Board. We expressed support for the IAASB’s initiative aimed at enhancing the requirements in ISA 700 (Revised) and ISA 260 (Revised). We also supported the revisions in the ISAs to allow for compatibility or operationalize the changes to the IESBA Code of Ethics that require a firm to publicly disclose when a firm has applied the independence requirements for Public Interest Entities (PIEs). These efforts represent a step forward to enhancing confidence and public trust in the profession. The IFIAR response also highlighted areas where the proposed requirements could be strengthened. This included support for a non-conditional requirement to be included in ISA 700 (Revised) for the following reasons:

- A non-conditional requirement in ISA 700 (Revised) to disclose the specific independence requirements the audit complied with, including which version of those independence requirements was applicable, would provide the greatest level of transparency for users of the financial statements to understand the independence standards that were applied.
- There are differences in independence requirements across jurisdictions. These variations may occur due to jurisdictions that have additional local requirements or because there is a delay between when IESBA finalizes a standard and when it is fully adopted. Even where the auditor’s report is issued in a jurisdiction that has fully adopted the IESBA Code of Ethics, it is possible that the definition of what constitutes a PIE can vary among jurisdictions. Auditors may be required to comply with multiple independence requirements from different sources and with different versions of those requirements when performing an audit of financial statements.

- Disclosure of the independence standards applied by the auditor could still be made for all entities without disclosing confidential plans of the entity by only requiring the disclosure of the minimum ethical and independence standards the firm is required to comply with in the performance of the audit. For example, when an entity is planning an initial public offering, the auditor would be required to report compliance externally with the non-PIE independence requirements (minimum level required), even though in practice the PIE independence requirements would have been applied where the audit firm planned to continue as the entity's auditor. Such a requirement should also allow the auditor to optionally disclose additional independence standards applied (i.e., independence standards the auditor has voluntarily complied with).

We also recommended aligning the proposed ISA 260 (Revised) application material on disclosing which independence requirements were applied to the requirements in ISA 700 (Revised). Specifically, we believe the proposed amendments to the application material of ISA 260 (Revised) may not, in all circumstances, achieve the desired increase in transparency. This is because proposed paragraph A29 of ISA 260 (Revised) states that the disclosure may include which independence requirements were applied, including whether differential independence requirements were applied; however, it does not require such a disclosure. In contrast, the proposed amendments to ISA 700 (Revised) would require the auditor to include in the auditor's report where differential independence requirements were applied where such a disclosure is required by the relevant ethical requirements. The information reported to those charged with governance should be at least equivalent to information required to be disclosed in the auditor's report.

In addition to the topics covered in the IFIAR response, we appreciate the opportunity to comment on the AASB's proposed Canadian amendments. We are concerned that the AASB's position taken in the exposure draft will not provide sufficient transparency to readers of the audit report regarding the independence requirements that were followed by the auditor. We believe this is important information for users of financial statements and is in the public interest. At a minimum, should the IAASB proceed with the conditional requirement the AASB should explore whether additional transparency can be achieved in the auditor's report in Canada while remaining consistent with existing Canadian Codes of Conduct/Ethics (Canadian Codes).

The IAASB and IESBA have been working to modernize the auditing and independence standards, and these amendments are critical to complying with the ISAs and to promoting a firm quality culture.

We encourage the AASB to actively collaborate with the Public Trust Committee (PTC) as they work to modernize the Canadian Codes. Recent amendments to the IESBA Code and ISAs are designed to serve the public interest by ensuring the IAASB standards operate in harmony with the IESBA Code, and without conflict. It is imperative that the AASB evaluate the cumulative impact of amendments to the IESBA Code that have not yet been reflected in the Canadian Codes on the application of the CAS by Canadian audit practitioners. Differences identified that may impact the application of the auditing standards in Canada need to be formally brought to the attention of the PTC and Auditing and Assurance Standards Oversight Council (AASOC) in a timely manner.



We would also encourage additional information be included in future AASB exposure drafts to help respondents understand the current state of the existing Canadian Codes and the impact on the application of the CAS.

CPAB looks forward to ongoing discussions and consultation on these topics. If you have any questions, please contact me ([carol.paradine@cpab-ccrc.ca](mailto:carol.paradine@cpab-ccrc.ca)) or Stacy Hammett ([stacy.hammett@cpab-ccrc.ca](mailto:stacy.hammett@cpab-ccrc.ca)).

Yours truly,



Carol A. Paradine, FCPA, FCA  
Chief Executive Officer