AASB
Auditing and Assurance Standards Board

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May 3, 2021

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 5th Avenue
New York, NY 10017
U.S.A.

Dear Mr. Siong:

RE: IESBA Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IESBA's Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (Exposure Draft). The AASB is an independent body with the authority and responsibility to set standards and guidance for quality control, audit, other assurance, and related services engagements in Canada.

We have responded to questions identified for consideration by the International Auditing and Assurance Standards Board (IAASB). If you have any questions or require additional information, please contact me at kcharbonneau@aasbcanada.ca or Jacqui Kuypers at jkuypers@aasbcanada.ca.

Yours very truly,

Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

Cc Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, FCPA, FCA, IAASB Member

RESPONSES TO SPECIFIC QUESTIONS

Matters for IAASB consideration

15(a). Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.

We support the IAASB using the factors in proposed paragraph 400.8 in establishing differential requirements for certain entities. However, in our view the phrase "reflecting significant public interest in the financial condition of these entities" is not an appropriate overarching objective that should be used by the IAASB. The IAASB sets differential requirements that apply to the audit of financial statements. As stated in paragraph 21 of the Explanatory Memorandum, "financial condition" is a term that considers more than an entity's financial statements.

We also have concerns with the IAASB using the overarching objective set out in proposed paragraph 400.9. For the IESBA, the requirements and application material relate to additional independence requirements for "who" performs the audit. In contrast, for the IAASB, the differential requirements impact the performance, communication and reporting of the audit of financial statements of certain entities. Our concerns are:

- It is not clear if the objective in 400.9 relates to enhancing confidence in the audit of the financial statements due to the differential audit requirements or all audit requirements.
- Confidence in the audit of financial statements is a very broad concept that includes many elements. Suggesting that differential requirements enhance confidence in the audit may lead stakeholders to conclude that a different, more extensive audit is performed for certain entities. This may widen the expectation gap, which is not a desired outcome.

It is not clear how the IAASB would use or apply the objective in paragraph 400.9 in establishing differential requirements.

15(b). The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.

We encourage the IAASB to use a limited number of categories for determining differential requirements. While it is reasonable to expect that users understand what a "listed entity" is, the same may not hold true for all the categories indicated in R400.14.

15(c). Considering IESBA's proposals relating to transparency and the further work to be undertaken as part of the IAASB's Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor's report?

It is difficult to respond to this question as the objective of such disclosure in the auditor's report is not clear. The objective of the disclosure needs to be determined. Once determined, alternatives to achieving the objective should be considered.

In our view, when developing the possible disclosure in the auditor's report, the IAASB will need to recognize that many stakeholders may not understand what it means when an auditor treats an entity as a PIE. Extensive explanation in the auditor's report or in other communications may be required to ensure the proposed disclosure is consistently and correctly understood by stakeholders, and the expectation gap is not widened. Further, stakeholders may have different interpretations of disclosure in the auditor's report. Stakeholders may assume that an audit of a PIE provides a higher level of assurance compared to an audit of an entity that is not a PIE, and that there are different types of audits or different levels of assurance provided.