

April 25, 2023

Submitted electronically

Auditing and Assurance Standards Board (AASB)

Bob Bosshard, AASB Chair

Karen DeGiobbi, Director, AASB

Response to the International Auditing and Assurance Standards Board's (IAASB) expansion of the standard for Less Complex Entities (LCEs) to include group audits

The Canadian Public Accountability Board (CPAB) is Canada's independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. CPAB is committed to promoting high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

CPAB has been following developments related to the IAASB and AASB's ongoing projects on **Audits of Less Complex Entities**. It is our view that it is not in the public interest for the AASB to adopt the LCE standard in Canada.

Concerns related to adoption of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) in Canada

As noted in our [December 2021 response](#) to the IAASB's exposure draft on the proposed ISA for LCE, our concerns regarding the creation of a separate standard include:

- Adequacy of a standalone ISA for LCE.
- Undermining professional responsibility.
- Unintended consequences of a separate ISA for LCE standard.
- Diminishing ISA clarity.

We do appreciate that in response to concerns raised on the IAASB's initial exposure draft, the IAASB refined the scope of entities that the ISA for LCE could be used. However, our overarching concerns noted above were not addressed and based on the revised scope of the standard we believe there would be very few entities that would be able to apply this new standard in Canada. Given the low number of entities we expect would be able to apply the LCE standard, and our concerns raised in our initial response, we do not think it is in the public interest for the LCE standard to be adopted in Canada.

In our recent [2022 Annual Inspections Results report](#) we noted that the high level of significant findings at firms that audit fewer than 50 reporting issuers continue to be concerning. In 2022 there was an increased finding rate of 81 per cent (25 of 31 files), compared to 50 per cent (9 of 18 files) in 2021. Our view is that the

ISA for LCE does not provide sufficient guidance for auditors and will therefore further deteriorate audit quality at smaller firms and exacerbate challenges we are seeing related to significant findings. The proposed expansion of the ISA for LCE to include group audits increases our concerns over the proposed standard.

Comments from other regulators

We understand that our concerns regarding this standard and its expansion to include group audits are also shared by other jurisdictions. For example, in its response to the IAASB's proposed ISA for LCE, [the International Forum of Independent Audit Regulators \(IFIAR\) noted](#) "the IAASB has acknowledged that the Complexity, Understandability, Scalability and Proportionality (CUSP) project addresses many of the same issues and challenges as the audits of the LCE project, and that the two workstreams are running in parallel. Applying and building on the existing objectives in the CUSP project, with additional focus on the understandability of the proposed standards, may contribute towards improving the quality of audits by enhancing the scalability of the standards (because of greater understanding), thereby eliminating the need to have a separate standard for audits of LCE. We encourage the IAASB to extend work on the CUSP project to incorporate LCE considerations, rather than issuing a separate standard."

The International Organization of Securities Commissions [expressed similar concerns](#) and strongly encouraged the IAASB to pursue other solutions as they believe "a single set of ISAs that are scalable, concise, and easier to understand" would be a more effective approach.

Closing remarks

We encourage the AASB, along with other key stakeholders both in Canada and internationally, to explore how to best support smaller practitioners through additional training, guidance and tools.

We would be happy to discuss our views further or answer any questions you may have about this letter. If you wish to discuss, please contact me (carol.paradine@cpab-ccrc.ca) or Stacy Hammett (stacy.hammett@cpab-ccrc.ca).

Yours truly,



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Chief Executive Officer

cc: Tom Seidenstein, IAASB Chair
Brian Banderk (Chair, CSA Chief Accountants Committee)