



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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Submitted electronically

International Auditing and Assurance Standards Board

Dear Sirs/Mesdames,

The Canadian Public Accountability Board (CPAB) is pleased to provide feedback on the IAASB's discussion paper on **Audits of Less Complex Entities**. As Canada's audit regulator, this is a topic that we have discussed internally on a number of occasions, as our audit inspections are of reporting issuers of a wide variety of sizes, ranging from zero revenue development stage entities to large financial institutions. In CPAB's experience, even a very small entity can, at times, have complex audit issues, as we have encountered in the crypto sector.

As we have reflected on this topic, CPAB has become increasingly convinced that it is very difficult to develop auditing standards that are scalable enough to apply both to the audit of a very small entity, and also be fit-for-purpose for the audits of large or complex organizations. The audit deficiencies and risks that we observe through our inspections lead us to believe that there are areas where auditors are calling out for more guidance. In many instances the variety of approaches used and the demonstrated lack of understanding of appropriate audit techniques creates a void, with a very real risk to performance and ultimately to stakeholders that rely on the audit. And, unfortunately, guidance that is optional sometimes results in circumstances where practitioners choose for efficiency reasons to not follow the guidance. Guidance must quickly become standards, recognizing that for emerging issues a fulsome assessment of the audit approach is required.

It is not unlike trying to create one manual that will cover the maintenance of every kind of airplane – from the paper variety to the complex, technology-driven jet. We would expect that the jet would have detailed procedures that the specialist will be required to follow. At the same time, the paper airplane technician would not require hundreds of pages of standards.

CPAB has also found that the time required to consult, assess and write standards that are principles-based and scalable has become unacceptable, resulting in years of lack of guidance in an environment where technology and industries are moving at an ever-increasing pace. We encourage an approach that provides for the timely development of auditing standards and guidance that serves the public interest.

With respect to the specific questions raised in the Discussion Paper:

1. Description of LCEs

The public has an expectation that the audits of all public entities are of a uniform level of quality and are comparable across entities regardless of size and complexity. Accordingly, CPAB's view is that public companies should be specifically excluded from the definition of less complex entities.

When considering the definition included in the discussion paper, we are also concerned the definition could be applied as a checklist, specifically in evaluating whether "one or more of the following" are present. CPAB believes all of the factors should be considered together in evaluating whether an entity is a less complex entity. Further some of the descriptions such as "few internal controls" should be removed. The absence of internal controls is not an indicator that an entity is not complex, especially where the entity should have a better developed internal control structure to manage its risks.

2. Challenges to audit LCEs

In CPAB's experience the challenge often relates to attempts to use checklists or other mechanisms that cover every possible scenario, rather than clearly excluding items which are truly not applicable. Further, auditors sometimes have difficulty documenting their thought process when developing an audit strategy and, in particular, documenting why they have chosen not to perform certain work.

3. Challenges not within control

If a different level of work effort is determined to be acceptable for less complex entities, serious consideration should be given to better explaining the difference to users of the financial statements. This could include having different reporting that differentiates this from a full scope audit. The absence of this explanation could increase the expectations gap.

4. & 5.

These questions are covered in our introductory comments.

CPAB believes that continuing to try to be principles based and scalable is contributing to an ever-increasing expectations gap and is detrimental to the role of CPAs in protecting the investing public.

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Yours truly,



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