

April 5, 2023

**Submitted electronically**

Mr. Thomas R. Seidenstein (Chair)  
International Auditing and Assurance Standards Board

Dear Mr. Seidenstein,

**Response to the IAASB's Consultation Paper: *The IAASB's Proposed Strategy and Work Plan for 2024-2027***

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

CPAB is pleased to respond to the IAASB's consultation paper: The IAASB's Proposed Strategy and Work Plan for 2024-2027.

**Overall comments**

We appreciate the efforts by the IAASB to periodically seek inputs on its strategy to ensure its activities and pronouncements continue to meet the public interest for high-quality auditing and assurance standards. While CPAB broadly supports the strategy and work plan as set out for 2024-27, we have significant concerns about the sufficiency of resources available to address the public interest needs for both assurance on sustainability standards and to continue to proactively enhance the international auditing standards (ISAs) to be responsive to evolving and emerging auditing issues.

**Sufficiency of resources**

CPAB acknowledges the importance of globally consistent standards for assurance on sustainability reporting, and it is important the IAASB identify incremental resources who have the competency and capacity to address this critical project. If resources are not properly planned and managed, there is a risk that resources will be diverted from important auditing standards projects. The ISAs are the foundation on which assurance sustainability standards are being developed. As such, it is critically important that the ISAs remain fit for purpose and the IAASB incorporates sufficient capacity into its work plan to allow agility and flexibility. The companies being audited are continually evolving and the IAASB's capacity to make narrow scope amendments will be critical to achieving its goal of being more agile and innovative and addressing changing public interest issues in a timely manner. Some specific examples of emerging areas where the standards are not clear, and we have had significant inspection findings in Canada, include the audits of companies in the technology, cannabis and crypto sectors.

We recommend the IAASB enhance its strategic plan in the following areas:

- The IAASB’s evaluation of resource requirements to achieve the goals outlined in its strategic plan needs to identify anticipated shortfalls and how the IAASB will prioritize resources to ensure the work on assurance sustainability standards does not come at the expense of other important auditing standards projects.
- More detail on specific actions, including consideration of resources, that will contribute to the IAASB’s ability to achieve its goal of being agile and innovative, including the ability to react proactively to novel and emerging issues that arise.

### IAASB priorities

While we acknowledge the importance of ISA 330, *Responding to the Assessed Risks of Material Misstatement*, it is our view that targeted technology omnibus projects and ISA 320, *Materiality* should be prioritized ahead of ISA 330 as the next project to be started in 2024 and ISA 330 should follow. The basis for this recommended prioritization is outlined below.

#### Technology targeted omnibus projects

In Canada, we have seen a significant increase in the number of reporting issuers operating in novel areas such as fintech and crypto. These industries tend to be very heavily reliant on technology that is either internally developed or where they utilize the services of third-party service organizations. In our inspections, we have identified significant concerns over the sufficiency of work performed by auditors when identifying and responding to the risks associated with entities who rely/utilize technology extensively in the performance of their services. We published thought leadership papers highlighting our observations from our inspections: [Auditing in the crypto-asset sector \(August 2022\)](#) and [Technology in the Audit \(August 2021\)](#).

We are also seeing an increase in the use of automated tools and techniques by auditors and reported concerns over the sufficiency of procedures by auditors when using these tools in our 2021 and 2022 regulatory assessments.

#### ISA 320, Materiality

Annual surveys published by the International Forum of Independent Audit Regulators has consistently identified materiality as an area that deserves priority. ISA 320 is an outdated standard that is no longer fit for purpose. Specifically:

- Paragraph A5 of ISA 320 states “Profit before tax from continuing operations is often used for profit-oriented entities.” This statement is inconsistent with what we see in practice in the Canadian reporting issuers we have inspected over the past several years. In the audit engagements that we have inspected since 2019, we have observed revenue: total assets and net assets being used as the benchmark for determining materiality at a much greater frequency than profit before tax; an increase in the use of expenses as the benchmark for determining materiality; and the range in the percentage applied to these benchmarks vary significantly from one firm to another and across similar types of entities.

- The revisions to ISA 315, *Identifying and Assessing the Risks of Material Misstatement* and ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* increase the relative importance of modernizing the application of materiality concepts within a risk-based audit.

#### ISA 330, Responding to the Assessed Risks of Material Misstatement

Our view is that this project should be completed in conjunction with the technology-targeted omnibus projects. This will ensure the updates required to 330 can reflect changes necessary for technology and developments in ISA 315 with a particular focus on the impact of the “spectrum of risk” and “inherent risk factors” on the auditor’s response. It will also provide additional clarification regarding the testing of internal controls. Challenges in testing internal controls over financial reporting is a recurring area with a high level of findings in IFIAR’s annual survey.

#### Various standards in the ISA 500 series

We encourage the IAASB to explore narrow scope amendments to these standards in addition to those that may be addressed through the technology targeted omnibus projects. We would highlight the following narrow scope areas that should be prioritized:

- ISA 501 – Additional requirements and guidance related to the performance of remote inventory counts. We are seeing an increase in the use of remote observation with the onset of pandemic related restrictions.
- ISA 530 – To address issues with audit sampling, including better linkage to how to deal with exceptions. We frequently see auditors extrapolating differences without a sufficient understanding of the reason for the difference, including evaluating the impact on internal controls and whether further audit procedures are necessary.

#### Joint audits

We recommend this is given the lowest priority and the jurisdictions that utilize this standard be encouraged to develop standards locally.

#### **Interaction between IAASB, International Ethics Standards Board for Accountants (IESBA) and other leading standard setters**

CPAB supports the inclusion of coordination with the IESBA and other standard setters in IAASB’s proposed strategic objectives. The coordination between IAASB and IESBA over the past several years has been a positive development that strengthens the international ethical requirements that support both the preparation and auditing of financial statements. CPAB encourages the IAASB to work to provide more transparency on the coordination with International Accounting Standards Board. The response to public interest issues such as materiality and going concern would be improved if the international accounting and auditing standards are developed on a coordinated basis.

If you have any questions or wish to discuss any of our observations in more detail, 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

cc: Bob Bosshard (Chair, AASB)  
Brian Banderk (Chair, CSA Chief Accountants Committee)