

May 15, 2019

Eric Turner, CPA, CA
Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
Sent via email: info@asbcanada.ca

Re: Exposure Draft (ED): Communication of Key Audit Matters in the Auditor's Report

Thank you for the opportunity to comment on the above Exposure Draft.

MNP LLP (MNP) is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include a sizable contingent of publicly traded entities and investment funds required to comply with National Instrument 81-106 Investment Fund Continuous Disclosure (NI 81-106), as such we believe that we are positioned well to provide feedback on this important issue.

We have reviewed the ED and have provided our response to the specific questions below. Overall, we support the Auditing and Assurance Standards Board's (the "AASB") project to adopt the Communication of Key Audit Matters (KAM) in the Auditor's Report as stated in Canadian Auditing Standard (CAS) 700 *Forming an Opinion and Reporting on Financial Statements* for Aequitas NEO Exchange (NEO), Canadian Securities Exchange (CSE) and TSX Venture Exchange (TSXV). We agree that it is important to continue to align with the International Standards on Auditing, preserving quality of Canadian Auditing Standards as well as meeting the needs of the investors. However, we are concerned with the inclusion of listed and unlisted investment funds that are required to comply with NI 81-106.

- 1) *Do you agree with the proposed scope of the revisions to the requirements to communicate KAM in the auditor's report? If not, why not?*

As stated above, we agree with the proposal to extend the requirement of reporting KAM's to the following exchanges: Aequitas NEO Exchange (NEO), Canadian Securities Exchange (CSE) and TSX Venture Exchange (TSXV) however we do not agree with the inclusion of listed and unlisted investment funds required to comply with National Instrument 81-106 Investment Fund Continuous Disclosure (NI 81-106).

PCAOB has exempted registered investment companies other than business development companies from reporting Critical Audit Matters (CAMs) and this fact needs to be strongly considered as the United States and Canadian capital markets are closely integrated and thus most relevant to this determination.

The PCAOB's research into the auditor's report of certain UK companies found on average 4.6% increase in audit fees (per PCAOB, "White Paper on the Auditor's Report of Certain UK Companies that Comply with International Auditing Standard (UK and Ireland) 700" Revised June 2013). This could be a significant increase in audit fees to the type of entities being proposed in the ED and it is unclear if the benefits are greater than the costs, especially for the smaller investment funds who will incur a significant burden from an audit fee perspective. Also, in situations where one audit report is covering multiple investment funds, communicating KAMs specific to each investment fund may require the auditor to prepare separate auditor's reports as such increasing the costs significantly.

Some of the benefits noted in the ED are related specifically to the audit committee, such as, "enhanced communications between the auditor and the audit committee about the most significant matters in the audit and potentially result in increased attention to disclosures about those matters in the financial statements by management and the audit committee". However unlisted investment funds do not have the same audit committee requirements, so these benefits highlighted in the ED are not relevant.

If, the AASB determines that NI 81-106 should be included, we encourage the AASB to only include listed investment funds that comply with NI 81-106 as listed investment funds require more stringent disclosures so that investors are adequately protected.

- 2) *Is there a need for guidance to assist stakeholders with implementing the new requirements? If so, please explain.*

Yes, guidance is imperative to ensure consistent application of the KAM's in auditor reporting and an understanding by the key stakeholders which include, but is not limited to, audit committee members, board members, legal counsel and investment advisors. Many smaller companies, which file on the exchanges that are proposed in the ED, will have audit committee members and board members that may not be as experienced in audit matters or accounting issues. The auditor will be drafting the KAM's, but they will be discussed with management and the audit committee, and if any party does not understand the requirements and implications then this will present challenges and frustrations.

A further concern, if investment funds are scoped in, is the complexity surrounding NI 81-106 due to the nature of these investment funds as such the AASB needs to ensure that there is specific guidance surrounding these investment funds to ensure clarity and consistent auditor reporting.

Specific areas that the AASB should consider providing guidance for is when audits use component auditors as this adds another layer of complexity, and audit reports that are related to more than one investment fund, specifically in light of the PCAOB excluding these investment funds from reporting CAM's.

Finally, the AASB should consider providing resources, such as best practices and links to examples in other jurisdictions.

- 3) *Does the effective date provide enough time to implement the new requirements?*

Given the number of entities affected by the proposed amendments outlined in the ED, we recommend providing additional time to implement the new requirements necessary to allow for comprehensive understanding and interpretation of the requirements which will then result in more precise application and effective communication of these requirements to management and audit

committees. Implementing an effective date that is too early after the TSX effective date is likely to result in rushed implementation and the benefits that these KAM's strive for may not be met.

We would be pleased to offer assistance to the AASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

MNP LLP

A handwritten signature in black ink, appearing to read "MBalmer". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Michelle Balmer, CPA, CA
Vice President, Assurance