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April 15, 2016

Dear Sir,

**Re: Invitation to Comment: Enhancing Audit Quality in the Public Interest - A Focus on Professional Skepticism, Quality Control and Group Audits**

Thank you for the opportunity to submit a response on the Invitation to Comment ("ITC"). We are supportive of the International Auditing and Assurance Standards Board (IAASB) initiatives to enhance the quality of audits, and have provided our responses below.

Our overall response to the Auditing and Assurance Standards Board ("AASB") ITC questions are as follows:

**1. Regarding the specific issues identified for your stakeholder group in the Appendices:  
How important are the issues described by the IAASB in the context of improving audit quality?**

- a) *For the three topic areas, are you aware of any issues particular to the Canadian environment that the AASB should consider in addition to the issues identified by the IAASB? If yes, please describe.*
- b) *Are there any specific industry groups (for example, mining, oil and gas, public sector, etc.), where you believe the issues identified by the IAASB are particularly relevant or may require particular attention? If yes, please describe.*
- c) *Will any of the IAASB's possible actions be particularly challenging to apply effectively by small and medium-sized practitioners on audits of varying sizes? If yes, please describe.*
- d) *Do you foresee any significant implementation challenges with the IAASB's possible actions? If yes, please describe.*

Overall, we agree with the issues outlined by the IAASB in the context of improving audit quality. We believe, however, the Canadian environment is unique whereby many of the significant public entities in Canada would be considered small or medium-sized from a global perspective. Recommendations to improve professional skepticism, quality control, and group audits based on comments received from institutional investors or other large users of the financial statements of global or multi-national companies, may be challenging to apply to small entities in Canada, as well as unnecessary in the context of a small audit environment.

Where requirements are prescriptive, they pose challenges for smaller firms and can be costly to smaller entities. We therefore would support application guidance over large scale revisions to standards. Enhanced application guidance, with examples of how the requirements could be met in differing circumstances, allows firms to comply with the "spirit" of the standards without forcing them into costly arrangements that often do not add any value for the firm's clients and other stakeholders.

The impact of more prescriptive standards around professional skepticism and quality control could have a significant cooling effect on recruitment and retention of auditing staff in Canada, particularly with the new Chartered Professional Accountant ("CPA") streams available.

Of final note, consideration of what is happening in the US (Public Company Accounting Oversight Board and American Institute of Certified Public Accountants) in regard to audit quality is critical in our opinion, as many Canadian public companies are dual-listed on stock exchanges.

Some specific comments on relevant topics are outlined below.

#### Professional Skepticism

We agree that the Canadian environment is one where sometimes heavy staff workloads, fee constraints, and tight financial reporting deadlines have an impact on the auditor's ability to consistently apply professional skepticism throughout the course of the audit engagement. We feel professional skepticism is a mindset or behaviour that cannot be prescribed through a checklist of specific items. There is, therefore, a need for clarification in the standards (or application guidance) about what constitutes evidence of the application of professional skepticism and how auditors should document the application of professional skepticism in their working papers. We are of the view that additional application guidance in this area is needed along with enhanced educational programs on this topic.

#### Quality Control

Requiring firms to adopt and maintain a Quality Management Approach ("QMA") could be costly, and require significant investment in firm infrastructure. If regulators such as the Canadian Public Accountability Board ("CPAB") would have the ability to recommend, or require, changes to the QMA, this could be problematic, without the context of the firm's business model and governance structure. In addition, it is not clear who will dictate or define what "quality objectives" are, or how they will be evaluated and monitored. Would this be an event, or an annual/periodic evaluation? We look forward to reviewing and commenting on any specifics of the IAASB's and AASB's plans in this regard.

We have noted that a definition, or additional guidance, of what constitutes a "quality" audit will be necessary and would like to see more guidance on the minimum expectations for the engagement partner and the engagement quality control reviewer. We would not be adverse to a separate Engagement Quality Control Review ("EQCR") standard and would like to see it outline criteria for what constitutes a risky audit and therefore when an EQCR would be required. In addition, we would agree with the requirement to provide a "cooling off" period for an engagement quality control reviewer that had previously been involved with an engagement.

On the topic of the auditor's report, we feel audit standards should steer away from governing who is required to sign the auditor's report as this may differ from firm to firm depending on their required levels of review. We feel this decision is better left up to each individual firm based on their individual policies. Additionally, we have concerns with adding further information in the auditor's report, whether in regards to disclosures about the role of other auditors or transparency reporting, and feel it will cause the report to become cluttered and overwhelming. We would prefer to see this information provided to users elsewhere.

In regards to engagement partner performance, rewards systems, and human resources matters, we do not feel it is within standard setters' or regulators' mandates to be prescribing a firm's governing policies on these topics and would prefer to see recommendations and guidance rather than prescriptive requirements. We feel that the way in which firms choose to comply with standards, and evaluate the performance of partners and staff in this regard are the firm's responsibility to determine, not the standard setters or regulators.

In regards to transparency reporting, we do not feel most financial statement users in Canada would find this information valuable in selecting an audit firm, particularly for the vast majority of entities that would be considered small on the global scale.

#### Group Audits

Additional guidance in regard to Group Audits would be very helpful. Consideration must be given to defining the role and responsibilities of the group and component auditor; when site visits would be recommended or required, versus working with a component auditor; and what would constitute sufficient evidence of direction, supervision, and analysis of the component auditor's work. Also, guidance is necessary regarding how to handle situations where "state secrecy" laws prevent transmission or transfer of working papers and other documents outside of a country. As well, guidance would be beneficial regarding situations where clients with significant assets/operations in foreign jurisdictions where factors such as government corruption, economic, and political instability, terrorism or internal warfare, etc. would prevent the auditor from sending staff, or relying on the competence and credentials of a component auditor. This is a reality for many of our clients of a growing global economy, and must be addressed.

The nature of communications between the group engagement team and the component auditors requires guidance along with criteria for evaluating whether the component auditor possesses appropriate competence and capabilities. Clarity in regards to determining overall group and individual component materiality is also necessary.

Finally, we would agree with the development of a new standard from the perspective of the component auditor.

**3. Are there any other issues that you would like to highlight for the AASB relating to professional skepticism, quality control or group audits, in addition to those issues identified by the IAASB? If yes, please describe.**

In addition to issues identified by the IAASB, we feel there is a need to continue outreach efforts, to educate financial statement users about what an audit is, and is not, and how much "reliance" can be placed on it.

Lastly, guidance on analytics, and how these support and evidence professional skepticism, is needed immediately.

We would be pleased to offer our assistance to the AASB in further exploring issues raised in our response to better meet financial statement users' needs.

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Sincerely,

**MNP LLP**

A handwritten signature in dark ink, appearing to read "Michelle Balmer".

Michelle Balmer, CPA, CA  
Vice President, Assurance