

## TRANSLATION

Montreal, June 29, 2017

Mr. Eric Turner, CPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington St. West  
Toronto (Ontario) M5V 3H2

Dear Sir:

Please find enclosed the comments of the Technical working groups – Assurance and Assurance reports on the Exposure Draft entitled “Auditing Accounting Estimates and Related Disclosures.”

We would appreciate receiving a copy of the English translation of our comments.

Please note that neither the Ordre des comptables professionnels agréés du Québec nor any of the persons involved in preparing the comments shall have any liability in relation to their use and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

Yours truly,

Annie Smargiassi, CPA auditor, CA  
Representative of the Technical echnical working groups – Assurance and Assurance reports

Encl. Disclaimer and comments

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Subject to the conditions described herein, the documents prepared by the technical and sector-specific working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the “comments,” provide the opinion of members on statements of principles, documents for comment, associates’ drafts and final exposure drafts published by the Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board, and other organizations.

The comments submitted by the working groups should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

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## **TERMS OF REFERENCE OF THE WORKING GROUPS**

The terms of reference of the technical and sector-specific working groups of the Ordre des comptables professionnels agréés du Québec are to collect and channel the views of practitioners and members in business, industry, government and education, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the technical and sector-specific working group members share the results of their analysis. Consequently, the comments below reflect the views expressed and, unless otherwise specified, all of the working group members agree on these comments.

The Order does not act upon and is not responsible for the comments made by the working groups.

## GENERAL COMMENTS

### *Future of our profession – importance of the project*

Members think that the amended proposed standard on auditing accounting estimates is particularly important for the profession given how the auditor's work is changing in the digital age. They believe that at some point in the future, CPA auditor involvement will increasingly be based on the use of judgment and the audit of accounting estimates, as opposed to so-called "transaction" auditing. The practitioner's value and the added value of auditing for stakeholders will likely be closely tied to the quality of the auditors' work and the level of assurance they will provide on management's accounting estimates.

With this in mind, the members urge the AASB to proceed with caution and not rush into issuing a standard with such a major impact on the profession. They suggest that the AASB take the time needed to assess the full implications of this standard.

They also recommend that the AASB ensure that the IAASB's other current projects that may be affected by the project on auditing accounting estimates, for example the project on identifying and assessing the risks of material misstatement, are properly analyzed within the context of the new standard on auditing accounting estimates.

### *Concept of "low inherent risk"*

Members are concerned about the concept of "low inherent risk" introduced in the proposals. This concept is not included in other CASs, such as CAS 315 *Understanding the Entity and its Environment*. Furthermore, many firms have yet to incorporate this concept into their methodology and wonder how they should deal with it.

According to members, this concept should first be introduced in a more general risk assessment standard before being included in the CAS on accounting estimates.

### *Auditing simple estimates*

Members believe that most Canadian businesses are small cap companies and SMEs. In their view, the most commonly used accounting standards in these organizations are not IFRSs, but rather accounting standards for private enterprises (ASPE) or accounting standards for not-for-profit

organizations (ASNPO). These organizations mostly have fairly simple and fewer accounting estimates to be audited than large public corporations applying IFRSs. Members are concerned about issues that could arise from a poor understanding of this complex standard in the context of PEs and NPOs, where the majority of audits are performed in Canada and Quebec. Furthermore, the examples in the proposals are primarily based on complex estimates applicable to larger businesses, which is not representative of their reality or that of most Quebec businesses. They are concerned about the risk of unnecessary additional work in non-complex environments, resulting in higher audit costs and possibly an unwarranted increase in market and regulator expectations. This could reduce demand for auditing in many markets because it would be viewed as too expensive, and drive demand for more affordable services that provide less assurance. This is not in the public interest.

They suggest that the AASB review its Canadian positions in light of their concerns in order to prioritize the required work based on the complexity of estimates and, above all, to provide application guidance and examples for members.

#### *Application guidance*

Members unanimously agree that application guidance and examples more adapted to the reality of SMEs will be necessary to guide practitioners' judgment in applying the presented proposals regarding, among other things, simple estimates and the interpretation of the factors of complexity, judgment and estimation uncertainty.

## **ANSWERS TO THE AASB'S SPECIFIC QUESTIONS**

### ***1. Do you believe that the proposed CAS 540 is capable of being clearly understood and consistently interpreted and applied?***

No, members do not believe that the standard is capable of being consistently interpreted. In their opinion, the prioritization of estimates leaves much room for interpretation. They suggest that the AASB provide criteria to assist them in determining whether estimates are complex. They believe that examples involving simpler estimates for less complex situations, as well as examples relating to PEs and NPOs, should be included in the proposed standard. For instance, what level of risk would be associated with a pension plan obligation?

Under paragraph 15(b) of the proposals, when inherent risk is not low, the auditor is required to obtain audit evidence about the matters discussed in paragraphs 17 to 20, and more specifically on three concepts: complexity, judgment and estimation uncertainty. Members think that understanding these concepts and their interrelationship is not that straightforward. They analyzed the examples provided, which prompt consideration of the three concepts as a whole. However, they believe that other examples might have illustrated different situations. They do not want to have to analyze these three concepts in each situation and would have appreciated additional examples to help them interpret the concepts.

They consider that where complex estimates are involved, the proposals are sufficiently clear. Members also expressed their concerns about paragraph .A134 of the application guidance which, in some circumstances, allows the use of a range of multiples of materiality for the financial statements as a whole. In their view, the circumstances in which this paragraph would apply are very rare and the members are worried that this option would be misused by many auditors. They believe that this application guidance should be better framed to ensure it is used appropriately.

Members are also concerned with situations in which simple estimates have to be audited by members with lower risk tolerance. According to them, these members could be tempted to perform more extensive procedures in situations where it would not be necessary.

They also questioned the minimum documentation requirements for files involving simple estimates. In their view, the proposals are unclear. Members believe that the wording of paragraph .27 on documentation is too vague and general. They would have liked more details on simple estimates. They perceive a possible misalignment between the positions of regulators (e.g. provincial inspection services) and audit firms, as is the case with unpredictability tests. They mentioned that disagreements could also arise with other regulatory bodies, such as the Autorité des marchés financiers (AMF) and the Canadian Public Accountability Board, which seem to be increasingly challenging the judgments of practitioners.

**2. *Recognizing that the proposals will apply to all accounting estimates and related disclosures in an audit of financial statements, do you believe that considerations for estimates of all sizes and complexities have been dealt with appropriately?***

No, as mentioned above, members do not believe that considerations for all accounting estimates have been dealt with appropriately. They fail to understand why the proposals, regardless of the audit approach used, require testing of the client's process for making accounting estimates. Based on numerous situations encountered in practice for small listed companies, such as mining companies, they conclude that it is often simpler or more efficient for practitioners to make their own estimates and compare them with management's, instead of testing management's processes. They often conclude that the client's process is inappropriate in the circumstances and that it would be a waste of time to test the said process for audit opinion purposes.

The internal staff of many firms includes several specialists who can make estimates for comparison against client estimates. Members think that paragraph .16 should be included under audit planning, not performance. In their view, it cannot be assumed that the client has a process in place, and many Quebec businesses (except the larger ones) do not have such processes. These common situations should be reflected in the proposals.

Moreover, some members noted a presumption that complex processes and estimates are necessarily associated with large entities, but this is not the case for small listed mining companies, for example, or many defined benefit pension plans that are required to make complex estimates but usually do not have a well-established process. They would have liked to see some examples reflecting these situations.

**3. *Recognizing that the proposals will apply to audits of all sizes, do you believe that considerations in the audit of small entities have been dealt with appropriately?***

Members noted that some paragraphs address considerations specific to small entities, but they think that there is not enough guidance, considering that most Canadian businesses are SMEs. Therefore, they believe that the proposed standard is not sufficiently representative of the Canadian context.

They gave as an example owner-managers and the proposed standard's guidance on management bias. On the one hand, they believe that in such circumstances, management biases cannot be controlled or eliminated by compensatory measures or by the auditor. On the other hand, estimates are fairly simple in such circumstances, and management biases should not have a significant impact on the estimates themselves. This type of guidance could help

professionals apply the standard correctly, provided it is sufficient and clearly related to the various requirements of the standard.

**4. Recognizing that the proposals will apply to audits of entities in all industries, do you foresee any difficulties in applying the proposals to audits of financial statements of entities in specific industries?**

Members mentioned small and medium-sized entities (SMEs), small-cap public companies, and defined benefit pension plans (which usually have very limited resources).

**5. Recognizing that financial statements may be prepared using one of several possible financial reporting frameworks (for example, International Financial Reporting Standards, accounting standards for private enterprises or Public Sector Accounting Standards), do you foresee any difficulties in applying the proposals to audits of financial statements in accordance with any of the financial reporting frameworks used in Canada?**

In members' opinion, financial reporting frameworks other than IFRSs typically do not give rise to complex accounting estimates. They believe that the proposals should be reviewed in this context. They mentioned, as an example, several NPOs that only have to make very few accounting estimates.

**6. Do you believe the proposals are sufficiently comprehensive for the purposes of assisting auditors, management and those charged with governance to communicate effectively with respect to auditing accounting estimates?**

Members would greatly appreciate more application examples that include situations where communicating with clients is required and methods for doing so. They believe that the application requirements and guidance on communications are not sufficiently clear and too theoretical, and that it would be difficult for them to determine which situations to communicate other than for complex estimates of larger entities and financial institutions.

**7. Do you believe the AASB should make any Canadian amendments to the proposed ISAs? If so, please include your reasoning and describe their nature and extent. Any amendments proposed would need to meet the criteria set out in Appendix II.**

Members wondered about the impact of the proposed amendments on Canadian joint policy statements, such as the one with actuaries. They believe that some experts could refuse to get involved in risk assessment and audit engagement planning. Canadian amendments may be necessary, but further analyses should be done.

Members said that the additional costs these measures could generate for Canadian SMEs should be analyzed in greater detail. The proposals do not seem to take into account the specific characteristics of Canadian businesses, most of which are SMEs.

**8. *Do you believe any of the requirements in the proposals could create initial implementation difficulties, despite the guidance provided? If so, please explain.***

Members believe that implementation difficulties are to be expected, but not necessarily different from those that may be experienced upon the initial application of the standard.

**OTHER GENERAL COMMENTS**

In view of the above-mentioned implementation difficulties, members recommend reviewing Audit and Assurance Alert “CAS 540 Compliance challenges when auditing accounting estimates,” issued in August 2014. Implementation publications and guidance would help with implementation, specifically for less complex estimates or entities without a well-defined accounting estimate process.

Some members believe that management representations are more binding and wonder whether enough discussions have been held with stakeholders. They think that the new proposals create a significant burden for auditors in terms of stakeholder communications. They recommend that the standard setter ensure that client briefing documents are prepared and published to help auditors prepare the required communications with all stakeholders.

Members are concerned about the fact that regulators are increasingly questioning their judgment and imposing certain standardized interpretations. This trend seems inconsistent with a standard-setting environment based on principles and the standards boards’ promotion of the use of professional judgment to address each unique situation. Some members are asking the AASB to consider establishing committees or roundtables involving stakeholders to discuss auditing standard application challenges, similar to the AcSB IFRS and ASPE discussion groups.