Montreal, October 22nd 2012

IAASB
Via: https://www.ifac.org/publications-resources/improving-auditor-s-report

Subject: IAASB Roundtable on Improving the Auditor’s Report - Comment letter

Given today’s global economic challenges and the increase complexity of financial reporting and global business activity, we all welcome improvements to the quality of information.

Being a former Chairman of the Canadian Institute of Chartered Accountants and sitting on many boards and audit committees, I am personally quite interested in the issue.

It is clear that the auditor’s report is a crucial part of the whole process of delivering information to the market place, but, we cannot look at those reports in isolation. It is a piece of the equation and we have to consider the complete picture.

As I said, we need to improve the overall quality of information but who should do it? Three groups of people are involved: the preparers, the audit committee and the auditors.

The first responsibility for the quality and timeliness of the financial statements lies with management and we will always do. We rely on their competence, their transparency and their integrity. It is for them to give enough information to help the reader understand the nuances of the financial information and the real situation of the company. We, as auditors or audit committees, cannot take their place.

The second issue is the relationship between the audit committee and the auditor. For example, it may be interesting to explain to the marketplace the merit of the concept of a risk based audit. I am not sure how that will improve the quality of the information (even if we assume that some people might be interested in reading it). It seems to me that an open discussion (with and without management present) between the auditor and the audit committee on the issue of risks and how our common evaluation of risks might influence to audit plan before the auditor begins its work is a step forward in improving the quality of audit and the quality of information. This is far from happening in every audit committee. There are, still, countries where the recommendation for auditor’s appointment come from the management, not the audit committee: that fact does not lead to building a strong partnership between auditor and audit committee to help and support each other in our respective oversight role. And I do believe in the need for this partnership and for a continuous discussion especially in this difficult economic environment. Should we be discussing the many assumptions used to prepare the financial statements. After all, it is often for the board to approve their release.

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The third element are the reports that both the auditors and the audit committees are issuing. From the start, I will recognize that there is no standards, no best practices for audit committees’ report: they vary from describing the number of meetings they have during the year to very extensive reports explaining why the audit committee agrees with assumptions management used to prepare the financial information. There is a clear need for improvement.

This being said, not only we need to increase the value of both reports: auditors and audit committees, but we also need to ask ourselves, in which report would it be more appropriate to disclose the information that we agree collectively should be disclosed.

I realize this means that a lot of work still needs to be done. But we have to step back and look at the overall picture. The three groups preparers, audit committees and auditors have to work together to offer a coherent, comprehensive package with the objective that each piece will complement each other in producing the high quality information that our shareholders deserve.

Best regards,

Guylaine Saucier, FCPA, FCA, C.M.

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