

August 26, 2011

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York
USA, 10017

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Auditing and Assurance Standard Board's (IAASB's) Consultation Paper "Enhancing the Value of Auditor Reporting: Exploring Options for Change".

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of chief financial officers, audit committee directors and senior executives in the finance, controller, treasury and taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR comprises more than 25 senior financial executives representing a broad cross-section of the FEI membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

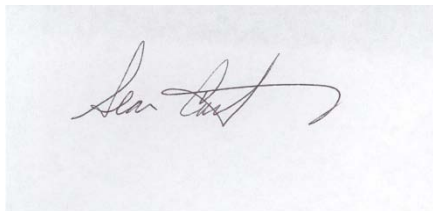
FEI Canada is supportive of meaningful and relevant auditor reporting. The IAASB Consultation Paper discusses a broad array of ideas and proposals to change the standard Auditor's report and increase the auditor's role in the financial reporting and governance processes. We believe the auditor's role is critical to the integrity of financial reporting and governance and the Auditor Report a key element in providing assurance to users of financial reports. We are unclear however, as to the depth and breadth of concerns with the current reporting amongst users. The options for change vary from administrative in nature to comprehensive and potentially costly. We do not support change to the Auditor Report, particularly where it impacts the auditor's assurance engagement without understanding whether the expectations of users discussed in the paper are real or perceived and whether stakeholders fully understand the cost benefit equation. We also caution the IAASB against the introduction of standards which overlap those of the accounting standard setters, regulators, those tasked with

governance of the entities, and management without a full and comprehensive evaluation of the financial reporting process.

FEI Canada's Committee on Corporate Reporting (CCR) appreciates the opportunity to provide input to the IAASB's Consultation Paper "Enhancing the Value of Auditor Reporting: Exploring Options for Change" and trust that you find our comments constructive. Specific responses to the Consultation Paper questions are provided in the Attachment.

Please do not hesitate to contact us should you have any questions,

Regards,



Sean Carleton
Chair, Committee on Corporate Reporting
FEI Canada

.cc Greg Shields, CA, Director, Auditing and Assurance Standards,
The Canadian Institute of Chartered Accountants

Attachment

**Financial Executives International Canada
Committee on Corporate Reporting (CCR) Comments to the
IAASB's Consultation Paper of May 2011
Enhancing the Value of Auditor Reporting: Exploring Options for Change**

Questions

1. *Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?*

We would like to have more information about the information and expectation gaps described in the consultation paper to help us better understand the issues. After reading the issue descriptions in the paper, we are uncertain about whether the gaps are real or perceived. While appendix 2 provides a list of background information, it is not helpful that there is no cross reference of specific observations formed in the discussion paper to individual background materials. There is also no indication of how widespread a specific observation formed in the discussion paper is supported in the background materials. In addition, we understand that current international and U.S. auditor reporting are not harmonized potentially causing some user confusion and this is not covered in the consultation paper, at least as an option for change. At the same time, it is unclear to us whether and how the background materials have considered the role of auditor reporting in relation to other elements of financial reporting in the broader framework and under the overall objective of more transparent reporting.

From a preparer's perspective, we note that a number of significant additional reporting requirements have been introduced in the last decade or so to address financial reporting risks. Specifically, management's discussion, and analysis content additions included the reporting of critical accounting policies and estimates, on- and off-balance sheet commitments, and significant litigation and other contingencies. Also reported and filed with regulators have been the annual and quarterly management certification and the auditor's report on the enterprise's internal controls over financial reporting. In addition, there are many new financial statements and notes disclosure requirements aimed at improving financial reporting transparency. There has also been a step up in reviews of an issuer's filings by the regulators resulting in corrections to reporting deficiencies. These developments have significantly increased costs and added considerable challenges to schedule. As a result, we propose that, prior to any significant changes to auditor reporting in isolation, a more comprehensive review of financial reporting as a whole would be a logical first step towards a more integrated solution. We further believe

that a reappraisal of the usefulness and impact of the above-mentioned recent requirements should be conducted as part of this comprehensive review.

- 2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative values of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe unaffected by these issues?*

In the light of our comments to Question 1 above and until such time that the broader financial reporting framework can be re-examined in a comprehensive manner, we believe that changes to auditor reporting, if any, should be in small incremental steps and in accordance with current auditing standards.

We believe all users who currently rely on auditor reporting will be affected by any changes to auditor reporting. Intuitively, a case can be made that the smaller investors or those users who do not have the resources to decipher all financial reporting disclosures could potentially be more adversely impacted by a change to a more complex and non-standard form of auditor reporting.

- 3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?*

We believe that it is important to retain the current requirement of one set of auditor reporting standards for all public companies, large or small, and for those other companies or businesses for which an auditor's report is currently required by government regulation.

For private companies, the increased complexity of the proposed audit report will increase costs with little benefit to those companies where shareholders, lenders and similar parties have good access to management. We believe for efficient markets to work, there should be a level playing field for all companies which require public capital, including the cost of auditor reporting. There is also the practical issue of how to define "small" without being arbitrary.

The response to Questions 4 to 7 is shown after Question 7

Exploring Options for Change

A. *Format and Structure of the Standard Auditor's Report*

4. *Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?*
5. *If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?*

B. *Other Information in Documents Containing Audited Financial Statements*

6. *Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?*
7. *If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?*

Based on our comments to Question 1 above, it is not clear to us whether the issues and gaps are real or perceived and how broadly based they are to support significant piecemeal changes to the standard auditor's report, let alone auditor reporting in general. However, we recognize the boundaries of this study do not extend beyond auditor reporting. In this regard, we are providing the following comments:

- As a first step, we believe that the harmonization of global standards on the auditor's report will contribute to more consistent auditor reporting information and less user confusion.
- We further note that the existing standard reports do not fully or clearly reflect existing scope requirements or auditor responsibilities under current auditing standards. As a result, we support potential enhancements which could involve clarifications or additional explanations in the existing standard auditor's report. These potential enhancements

should not result in significant expansion to the content or location/positioning of the existing standard auditor's report. Key examples include:

- Indicate in the standard report that an audit does not provide absolute assurance.
- Currently, the standard auditor report simply states that the auditor's responsibility is to provide an opinion on the financial statements based on the audit. The standard auditor's report could be expanded to explain and clarify the auditor's responsibility for financial statement disclosures.
- Currently, the auditor has a responsibility to read the other information in the MD&A, chair's letter to the shareholders and other documents containing audited financial statements information and consider whether such information is materially inconsistent with the audited financial statements or represents a material misstatement of fact. The standard auditor's report could be expanded to describe the auditor's current responsibility on such information.

The response to Questions 8 to 19 is shown after Question 19

C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.
9. Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.
10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.
12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

15. What actions are necessary to influence further development of such assurance or related services?

Implication of Change and Potential Implementation Challenges

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

19. Are there other suggestions for change to auditor reporting to narrow the “information gap” perceived by users or to improve the communicative value of the auditor’s report?

Based on our comments to Question 1 above, we would not be in a position to support significant changes to the auditor’s report nor would we support expansion of the assurance engagement in areas that overlap or interfere with the responsibility of a company’s board of directors, its management, the accounting standard setters, or regulators. In this light, we have the following comments to offer:

- A “pass/fail” audit opinion is ultimately the most important message. Any additional auditor’s information can potentially be misinterpreted as some form of auditor qualification, auditor attempt to evade some of their responsibility or dilution of the opinion and should be carefully assessed. We are mindful that additional information could have potentially the most adverse effects on the smaller or less sophisticated investors who may not have the necessary wherewithal to decipher these additional disclosures.
- We are particularly concerned with the proposal for auditor comments in areas that are presented fairly and in accordance with GAAP. If accounting alternatives should not be allowed and management judgment curtailed in specific areas, then the corresponding accounting standards should be revised appropriately. The solution or the responsibility should not be with the auditor.
- The concern on “duelling” information” can be real and, in addition to potential user confusion, the role of the auditor and that of management and the audit committee on financial reporting would need to be carefully re-examined before any changes should be contemplated in this area.
- Additional auditor reporting would require new standard making, particularly in the more complex and non-standard forms discussed in this paper. More standards could mean more divergence, adding to user confusion.
- There is a growing environment of accounting and auditing standards overload and the cost and schedule challenges of preparing financial statements are increasing due partly to increasing complexity of these standards. We would like to encourage the IAASB to continue or even increase its diligence in the analysis of cost and benefit and only adopt new standards when there is an economic benefit well in excess of the cost of implementation and maintenance. Any standards with marginal benefits or of only pure academic interests with no tangible benefits to users should be discarded.