



October 5, 2012

James Gunn
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International Audit and Assurance Standards Board
International Federation of Accountants
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Dear James Gunn:

RE: Invitation to Comment: Improving the Auditor's Report

Thank you for the opportunity to comment on the invitation to comment titled "Improving the Auditor's Report." The views expressed in this letter reflect the views of the Government of the Province of British Columbia.

The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board standards. We have a particular interest in the development of the proposed guidance as it may influence future audits of the Province's Summary Financial Statements.

We do not agree with the proposed audit report changes with respect to auditor commentary. The existing auditing standards with respect to auditor commentary should be retained.

The auditor commentary proposals would result in the auditor exercising professional judgement with respect to the topics to include within the auditor commentary. This would result in inconsistency between audit reports because some auditors could judge that many topics could be worthy of being included in the auditor's report, whereas other auditors could judge that very few topics are worthy of inclusion in the auditor's report even though there are similar fact patterns between the entities that have been audited.

The IFRS practice statement titled "Management Commentary" states that the management commentary should include but not be limited to the following topics:

- (a) the nature of the business;
- (b) management's objectives and its strategies for meeting those objectives;
- (c) the entity's most significant resources, risks and relationships;
- (d) the results of operations and prospects; and

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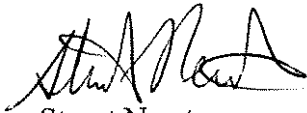
- (e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

The sample audit report includes the following examples of audit commentary: outstanding litigation; goodwill; valuation of financial instruments; and information about a new revenue, accounts receivable and cash receipts system, which are topics that according to the management commentary practice guideline must be included within the entity's management commentary and as a result, the auditor would only be repeating information in the audit report that management has already commented on. The sample audit report also includes audit commentary on the involvement of other auditors. This information would more appropriately be included in the section on the responsibilities of the auditor.

The appropriate vehicle for commentary on an entity's financial statements is the management commentary prepared by the entity's management. We agree with the proposal to include a statement in the audit report about the other information that has been read by the auditor and whether there are any material inconsistencies between the other information that has been read by the auditor and the audited financial statements. The IAASB should ensure that this proposed update to the auditing standard requires the auditor to only read the other material and not to perform an audit on the other material.

Responses to specific questions posed in the invitation to comment are attached. Should IAASB have any comments or questions, please contact me at 250-387-6692 or by e-mail: Stuart.Newton@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250-356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

On behalf of the Government of British Columbia,
Sincerely,



Stuart Newton
Comptroller General

Encl.

pc: Peter Milburn, Deputy Minister
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board
Ministry of Finance

Jim Hopkins, Assistant Deputy Minister
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Question 1

Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?

Overall, we agree with some but not all of the IAASB's suggested improvements. Our answers to questions 2-18 include descriptions of those suggested improvements with which we agree and those suggested improvements with which we disagree.

Question 2

Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

We are not aware of any other alternatives or improvements that could be included in the auditor's report.

Question 3

Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35–64).

We do not agree with the proposed audit report changes with respect to Auditor Commentary. The existing auditing standards with respect to Auditor Commentary should be retained. The Auditor Commentary proposals would result in the auditor exercising professional judgement with respect to the topics to include within the Auditor Commentary. This would result in inconsistency between audit reports because some auditors could judge that many topics could be worthy of being included in the auditor's report, whereas other auditors could judge that very few topics are worthy of inclusion in the auditor's report even though there are similar fact patterns between the entities that have been audited.

The IFRS practice statement titled "Management Commentary" states that the management commentary should include but not be limited to the following topics:

- (a) the nature of the business;
- (b) management's objectives and its strategies for meeting those objectives;
- (c) the entity's most significant resources, risks and relationships;
- (d) the results of operations and prospects; and
- (e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

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commentary practice guideline must be included within the entity's management commentary and as a result, the auditor would only be repeating information in the audit report that management has already commented on. The sample audit report also includes audit commentary on the involvement of other auditors. This information would more appropriately be included in the section on the responsibilities of the auditor.

The appropriate vehicle for commentary on an entity's financial statements is the Management Commentary prepared by the entity's management. We agree with the proposal to include a statement in the audit report about the other information that has been read by the auditor and whether there are any material inconsistencies between the other information that has been read by the auditor and the audited financial statements. The IAASB should ensure that this proposed update to the auditing standard requires the auditor to only read the other material and not to perform an audit on the other material.

Question 4

Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43–50).

We disagree that matters to be addressed in Auditor Commentary should be left to the judgement of the auditor. It is not the role of the auditor to discuss other issues in the audit report because they do not impact the fairness of the presentation of the audited financial statements. Management Commentary is the place where significant facts about the entity should be discussed and it is the role of the entity's management and those charged with governance to bring those significant facts to the attention of the reader of the audited financial statements.

Question 5

Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61).

We do not believe that the examples provide additional information to the financial statements' users over and above what is already contained in the audited financial statements. The Auditor Commentary would be more useful when it provides information on risks to the going concern status of the entity, such as when a change in the characteristics of the measurement uncertainty included in the financial statements could impact the going concern status of the entity.

Question 6

What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64).

The implication is that the auditor would be providing commentary on topics that should be included either in the audited financial statements as note disclosure or in the Management Commentary. This type of commentary or disclosure is more properly within the realm of the entity's management or those charged with the responsibility of the governance of the entity because they have the information necessary to provide the needed commentary.

Question 7

Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56).

We believe that Auditor Commentary should be provided with respect to all entities when a change in the measurement uncertainty characteristics used in the audited financial statements could impact the going concern status of the entity. This requirement should apply to the audit reports of public interest entities, other private sector entities and all public sector entities.

Question 8

What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34).

We agree with including a section in the audit report on the going concern assumption. However, the auditor's report should be supplemented when the auditor has concluded that the entity has inaccurately disclosed its status as a going concern in the notes to the financial statements. The audit report should include commentary about why the auditor disagrees with the going concern disclosure in the audited financial statements. Such a disagreement may also impact the auditor's opinion on whether the audited financial statements fairly, in all material respects, present the financial position of the entity. This approach would ensure the audit report reader is fully informed of the going concern status of the entity when the entity has failed to fairly disclose its going concern status in the notes to the financial statements.

Question 9

What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified? (See paragraphs 30–31).

If the entity has addressed those material uncertainties adequately in the audited financial statements there is no need to reference them in the auditor's report. The auditor's report should reference those material uncertainties if they have not been properly addressed in the audited financial statements.

Question 10

What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71).

We agree with including in the audit report a section that describes other information, such as Management Commentary and the Chair's statement, which the auditor has read in conjunction with the audit. We agree this section should describe the material that has been read and that it should state whether or not there are any material inconsistencies between the material read by the auditor and the audited financial statements. The IAASB should ensure that this proposed update to the auditing standard requires the auditor to only read the other material and not to perform an audit on the other material.

Question 11

Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report is helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81–86.)

We agree that the audit report section that describes the responsibilities of management should be expanded to include the role of those charged with governance, which would complement the description of management's responsibilities.

Question 12

What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73).

We disagree with the disclosure of the name of the partner responsible for the audit. We note that disclosure is not required if the safety of the audit partner may be put into jeopardy. However, any disclosure of the name of the partner responsible for the audit may cause individuals to send communication to a person with that name whether or not they work for the audit firm. We recommend that the name of the partner be left off the report so that anyone wishing to communicate with the audit firm about the audit is required to use the contact information, which should be contained in the audit report.

Question 13

What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77–80).

The information about reliance on the work of other auditors would more appropriately be included in the section on the responsibilities of the auditor. The auditor should use his or her judgement on whether it is appropriate to include a discussion on his or her reliance on the work of other auditors.

Question 14

What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report? (See paragraphs 83–84).

The audit report should contain all the information that is necessary to understand the auditor's opinion on the audited financial statements. The reader should not be directed to a website to obtain information that is critical to an understanding of the audit report.

Question 15

What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17–20).

We agree that the auditor's opinion should be at the front of the auditor's report. We agree that the Auditor Commentary section should be located toward the beginning of the report.

Question 16

What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90).

We agree that there should be global consistency with respect to auditors' reports.

Question 17

What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4).

We have no comment on this question.

Question 18

In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95).

We do not agree with all of the IAASB's suggestions; therefore, we do not believe the suggestions are appropriate for entities of all sizes. We do, however, agree that those audit report improvements that are implemented are applicable for both the public and private sectors. The purpose of an audit report is primarily to report on the fairness of the financial statements. Included within this purpose is information on the entity's going concern status. The improvements to the auditor's report should focus on the reporting on these two items.