



September 13, 2011

Via website posting: <http://www.iaasb.org/>

Re: Consultation Paper: **Enhancing the Value of Auditor Reporting: Exploring Options for Change**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Consultation Paper: **Enhancing the Value of Auditor Reporting: Exploring Options for Change**

Question 1

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

Comments

We believe that the issues identified in Section II are timely and relevant. The expectation gap and the information gap experienced by the users of financial reporting represent important causes of diminished credibility of financial reporting. Restoring this lost credibility is a necessary, though not sufficient, condition for the success of efforts to bolster the global economy's path to recovery.

Question 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 value 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 are unaffected by these issues?

Comments

We believe that the most beneficial change in auditor reporting can be introduced by increasing clarity rather than increasing scope or by making only cosmetic changes in the format of an auditor's report. We further believe that the major impediments in enhancing the value of auditor reporting are concealed, or otherwise resultant, from the absence of a vigorous conceptual framework for providing assurance on non-financial information, potential litigation concerns, and misconceptions among some users with respect to an auditor's report. We have expounded on these assertions in our comments to other questions.

We also believe that, among all of the stakeholders, investors or providers of capital constitute a group that is most affected by the issues identified in this consultation paper. The issues related to expectation gap and information gap impact all of the users to some extent, and we have not identified

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any one group of users that is immune from these impacts or that would not benefit from enhanced auditor reporting.

Question 3

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

Comments

We believe that tentative changes for listed entities are most pressing and important, but that the stakeholders of other entities would also prospectively benefit through assimilation of these changes, if such changes were to be customized or scaled to their own specific circumstances and requirements.

Question 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?

Comments

We note that auditing of a large entity is akin to statistical testing of a hypothesis. This is because of the auditor's reliance on statistical sampling for the purpose of drawing inferences on the financial statements of large entities. The null hypothesis for this purpose is that the financial statements *are not* materially misstated in accordance with Generally Accepted Accounting Principles, while the alternative hypothesis is that they *are* materially misstated. The standard auditor's report can be improved by either designing better processes or enriching communication to, and edification of, the stakeholders. We believe that the options for change regarding the format and structure of the standard auditor's report described in Part A are not likely to bridge the expectation and information gap affecting users of the financial statements, because they neither improve auditing processes nor improve clarity of auditor reporting.

Question 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?

Comments

We consider the repositioning of paragraphs dealing with the auditor's and management's responsibilities in the auditor's report to be a cosmetic change, and not a substantive change that can meaningfully bridge the expectation gap. We believe that the expectation gap results, in part, from the unfamiliarity of users with regard to the limitation of auditing in providing insights about future prospects or extant irregularities, including fraud. This issue can be best addressed by educating the users and, for this purpose, it would be useful to examine whether the phrasing of these paragraphs can be enriched so as to make them more illuminating and instructive.

Question 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?

Comments

We believe that inclusion in the auditor's report of a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements would be useful and further enlighten the users about the auditor's responsibility. We also suggest analogous enhancement of the paragraph dealing with management's responsibility.

Question 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?

Comments

We believe that the auditor's report should not be selective about the other responsibilities of the auditor and, in addition, should also deal with the auditor's assessment of the entity's ability to continue as a going concern, including Management Discussion and Analysis (MD & A), Operating and Financial Review (OFR), and other narrative sections of an entity's financial reports in so far as they purport to convey financial information. In the interest of clarity, there should be an explicit statement as to whether the auditor has anything to report with respect to the other information.

Question 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.

Comments

We believe that providing additional information in the auditor's report is not practical at this time, given the present legal environment and the ability of the users to comprehend such information in conjunction with the regular auditor's report, including the "Emphasis of Matter" and "Other Matter" paragraphs as articulated in ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. We believe that providing additional information may dilute the message conveyed by the main audit report, and/or be perceived to contradict it. The result may be increased ambiguity and opacity instead of clarity and transparency.

Question 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.

Comments

We believe that the use of "justification of assessments" in France is an option worth exploring and, if adopted, has the potential to significantly augment users' comprehension of the auditor's report. However, it would be necessary to provide adequate safeguards so that such disclosures not become boilerplate in nature or too technical, and do not expose the auditor to compounded liabilities.

Question 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.

Comments

We do not believe that the prospect of the auditor providing insights about the entity, or the quality of its financial reporting, in the auditor's report is feasible in the absence of an appropriate framework for such disclosures, the highly subjective nature of such disclosures, and the legal deterrents such as privacy and confidentiality. We are also concerned that such disclosures may, albeit inadvertently, adversely impact the working relationship between the auditor and the management.

Question 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.

Comments

We note that best practice in corporate governance structure includes processes, customs and policies designed to align the interests of the owners of the corporation (shareholders) and the management or those charged with its governance. A high quality financial reporting regime represents only one component of good corporate governance and, by itself, cannot ensure effective corporate governance. The oversight of corporate governance can be appropriately entrusted only to a multidisciplinary team including experts in law, ethics and business management. Accordingly, we do not endorse an enhanced model of corporate governance reporting, as described in Section III, Part D, because we believe that such a task will be *ultra vires* the natural domain of the auditing profession, which is financial reporting. Without prejudice to what is presently stated, we are concerned that the enhanced model of reporting may distract users from the auditor's report on financial statements, and diminish, rather than enhance, their comprehension of the entity's current state of affairs and future prospects.

Question 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?

Comments

Please refer to comments to Question 11

Question 13

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

Comments

We view high quality financial reporting as only one of the components of model corporate Governance, and also note that, at present, there is neither uniformity with respect to a report issued by those charged with governance, nor an appropriate framework for providing assurance on such reports. Accordingly, and in consistency with observations made in comments to Question 11, we consider provision of assurance, by the auditor on a report issued by those charged with governance, as problematic.

Question 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.

Comments

We note the non-financial nature of information depicted in paragraph 88 of Section III, Part E, and concur that such information would complement and supplement financial reporting, as well as enlighten users if the same is made available to them. However, though highly desirable, we believe that at present it is not feasible to provide assurance, or any other related service, on this type of information.

Question 15

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

Comments

We believe that, although highly desirable, the auditing profession may be challenged at present to provide such assurance or related service. At minimum, the pertinent matters such as educational and ethical issues should be first examined by the respective boards adhering to established due process, and the IAASB should be well served by engaging all stakeholders; both for consensus building, and for evolution of a conceptual basis for providing such assurance or related services by the auditors. We also recognize the need for an appropriate regulatory framework before the auditors can provide such services in any given jurisdiction.

Question 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.

Comments

The following paragraphs summarise benefits, costs and other implications of change, or potential challenges, that we believe are associated with the different options explored in Section III.

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

The costs and benefits associated with the proposals envisioned under this option would be marginal, and we do not anticipate that the expectation gap and information gap experienced by users to diminish significantly under this option, even though this option may be the easiest to implement.

B. Other Information in Documents Containing Audited Financial Statements

It would be worthwhile to further explore this option, as the ratio of costs and benefits is likely to be highly favourable.

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

Proposals under this option are highly desirable, but difficult to implement in all jurisdictions, because of legal obligations such as privacy and confidentiality. The proposals may also adversely impact the working relationship between auditor and management, negating any perceived benefits of this option. We suggest further monitoring of this option as it is implemented successfully in France.

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

The proposals under this option attract significant costs, as they require substantial increase in the work performed by the auditor, and also expose the auditor to a greater degree of professional liability. In the absence of an appropriate conceptual framework, the potential benefits are uncertain and the challenges of implementation are unknown. The proposals also entail synchronisation of work plans and projects with the other IFAC boards such as International Accounting Education Standards Board (IAESB) and International Ethics Standards Board for Accountants (IESBA).

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

The issues, and our observations under this option, are similar to those contended under option D above.

Question 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.

Comments

We believe that benefits, costs, potential challenges and other implications of change will be different depending upon the type of entity. These differences would be on account of divergent size and economies of scale enjoyed by various entities; and also on the dissimilar legal and economic environments prevalent in jurisdictions. In the case of SMEs and SMPs, the costs and challenges will be disproportionately high and potential benefits small, relative to large corporations and their auditors. The auditors and their clients in emerging economies will also experience asymmetrical cost benefit relationship, relative to those in developed economies. We also believe that a different approach will be required for public sector entities because of the differences in GAAP and expectations of stakeholders.

Question 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?

Comments

We believe that options B (a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements) and C (auditor providing additional information about the audit in the auditor's report on the financial statements) explored in Section III, either individually or in combination, would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case.

We also believe that the IAASB should explore the opportunities for collaboration with the following organizations with respect to the options described in Section III:

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- Standards and Financial Market Integrity division (SFMI) of CFA Institute
- International Integrated Reporting Committee(IIRC)
- Global Reporting Initiative (GRI)
- World Intellectual Capital Initiative (WICI)
- The Corporate Reporting Users' Forum(CRUF)

These organizations represent important stakeholders and have necessary expertise that would add considerable value to the process of developing an enhanced auditor reporting model.

Question 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?

Comments

We believe that effectiveness and efficiency of the auditing process can be greatly enhanced by improvements in audit quality control processes. For this purpose, it is critically important for the IAASB to continuously update the extant auditing and assurance standards so that they remain aligned to rapidly changing business, economic and technological environments.

We further suggest that the IAASB should work towards the development of consensus on an internationally recognized and accepted conceptual framework for an enhanced auditor reporting model that supports delivery of information with improved relevance and comparability for decision making. This framework should provide structure for the presentation of non-financial components of business reports, and facilitate greater integration of financial and non-financial components. We also suggest that the new framework should be customized and scaled to the needs of SMPs and SMEs. The new framework should also facilitate more robust application of XBRL, and should serve as the basis for developing meaningful taxonomies for the non-financial components of the corporate reporting, including the narrative portions such as Management Commentary. However, we also caution against pursuing an over ambitious agenda without strengthening the extant financial information supply chain.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamalesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefevre@cga-canada.org.

Sincerely,

[Original signed by:]

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