

Wayne Morgan
Office of the Auditor General of Alberta
Edmonton, Alberta, Canada

October 6, 2012

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

Dear Sir/Madam:

Thank you for the opportunity to comment. Our response to IAASB Invitation to Comment – Improving the Auditor's Report is below.

Overall Considerations

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 believe the changes do not enhance the relevance and information value of the auditor's report.

While users may have legitimate concerns with increasingly complex financial statements, the auditor's report is not the appropriate vehicle for solving issues in accounting and reporting standards. It would be more effective for accounting standard setters to consider how to improve the relevance and objectivity of information included in financial statements.

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.

The auditor's report will not benefit from an expansion of matters required to be reported. Existing standards provide auditors the means to provide an emphasis on matters in the financial statements or to provide other information for readers to understand the assurance provided by the audit. If additional matters should be reported in some circumstances, these should remain optional to support an independent and objective evaluation of issues and for the auditor to exercise judgment as to whether a matter should be communicated to readers.

The changes could be viewed as an attempt to solve an accounting or capital markets problem with an auditing solution. However, a better approach may be for accounting standard setters to re-examine what information should be provided to gain further insights into the entity and its financial statements.

- 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.)**

No. The additional information provided will be of limited value. It is an accounting standards matter what relevant information is reported in the financial statements and further selectively highlighting parts of this information is not the role of the auditor, other than already established under Emphasis of Matter standards.

- 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.)**

The matters should be left to the judgment of auditors, including judgments as to whether any matters are significant enough to require reporting. Reporting significant judgments made in every engagement may reduce the impact of truly significant matters to be reported to users (such as matters that would be reported currently under ISA706).

- 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 agree that the purpose of the auditor’s report should extend beyond the provision of an opinion on the financial statements. We believe that extending the auditor’s role to providing new information, such as an analysis or interpretation of the financial statements or identification of matters likely to be most important to users’ understanding, may undermine the perceived independence and objectivity of the auditor, and weaken the value of the audit opinion. It is the role of accounting standard setters to require such information, and for management and TCWG, and market participants such as investors or intermediaries, to perform such analysis and interpretation.

- 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 changes will significantly increase costs and reduce timeliness. There will be initial costs; in future years these may reduce but primarily because the matters included would have become “boilerplate” descriptions as well, standardized by practice and use, and the benefits proposed in the Invitation to Comment would accordingly disappear.

- 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 oppose a mandated Auditor Commentary for any broad group of audits. We believe that any such commentary should be at the discretion of the auditor to provide the means to report significant matters while limiting such reporting to matters of material impact – as currently provided in ISA706. We note that Supreme Auditors, subject to their mandates, have the ability to comment on matters they believe are important for the attention of their respective governments and citizens; it would be unfortunate if these changes would impede the ability of Supreme Auditors to report as such because precise rules have been defined regarding what shall be said in the auditor’s report.

Going Concern/Other Information

- 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.)**

Because the auditor already, under ISA570, has reached a conclusion that the going concern assumption is appropriate, or disclosures relevant to the going concern are adequate, there is no additional value in auditor statements related to going concern.

- 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.)**

There is no value to including this information; ISA706 already provides guidance regarding uncertainties.

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

Asking auditors to report on the execution of procedures required by audit standards adds little value beyond a communication of those responsibilities which is already established under ISA720. Requiring auditors to report on other information may unnecessarily delay the completion of the audit until such information is complete and in a final form, requiring extension of subsequent event procedures, and may provide readers with a false level of assurance regarding the other information.

As noted earlier, we believe the ITC is attempting to deal with what is fundamentally more of an accounting issue than an auditing one. Accounting standard setters may therefore also consider what “other information” should instead be included in the financial statements, subject to audit.

Alternatively, the IAASB could undertake a project to provide standards for auditors such that they could express assurance on the entire document that contains financial statements, including results analysis and other information, thereby supporting moving forward from this historical distinction of “financial statements” and “other information included in documents that contain financial statements.”

11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are 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.)

Expanded descriptions of responsibilities will likely eventually be standardized to boilerplate text which will not add value from one audit to the next or over time. A minor change to explain management's responsibility with respect to the going concern assumption could be made to ISA700, although this leads to a broader question of other matters that management (or TCWG) is responsible for but which are not explained in the auditor's report, such as management is responsible for operations of the entity, determining strategy, having quality products, complying with legislation, dealing appropriately with stakeholders, etc. all of which are much more relevant to going concern.

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

This matter relates more to the private sector than to Supreme Audit Institutions or legislative auditors where the Auditor General signs the report.

However, naming the individual in private firms may reduce the perceived value of the audit opinion if readers interpret this as a reduction in firm responsibility.

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.)

We believe such disclosure would not add value, and may undermine the value of the audit opinion. Audit standards require the engagement auditor to obtain sufficient appropriate evidence to support the audit opinion, including procedures to support the sufficiency and appropriateness of the work of other auditors whose work is used in the engagement. Whether or not other auditors have been involved should not impact the result of an audit executed in accordance with ISA600. But reporting this information may imply that the level of assurance is somehow different for a group audit as opposed to an audit carried out entirely by the engagement auditor and staff.

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 full auditor's report should be included, although we question whether this additional information on responsibilities should even be added to the standard auditor's report.

We support the public availability of educational materials on the role of the audit and the responsibilities of the auditor, management and TCWG, which can be provided on the IAASB/IFAC website.

Form and Structure

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.)

Moving the auditor's opinion to the beginning of the report is an improvement as readers may quickly see the result of the audit. However, it increases the risk that readers will stop there and not read the further information provided in the report.

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.)

Global comparability is desirable, but not essential. National standard setting bodies may balance the benefits of consistency with relevance to their national environments.

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.)

Mandating the order of items encourages consistency/comparability by establishing a common base from which national standard setting bodies and auditors may vary the report as required by law or regulation.

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.).

While not agreeing with the suggested improvements, we think that reporting requirements should apply equally to all entities.

Thank you for the opportunity to comment.

Sincerely,

Wayne Morgan, PhD, CA, CISA

cc Auditing and Assurance Standards Board, Canadian Institute of Chartered Accountants