



Québec City, October 4th 2012

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

Subject: “Improving the Auditor’s Report”

Dear Sir:

Attached please find the comments of the Auditor General of Québec in response to the Invitation to Comment on the Consultation Paper, *“Improving the Auditor’s Report”* issued by the International Auditing and Assurance Standards Board (IAASB).

Sincerely,

A handwritten signature in black ink, which appears to read "Michel Samson". The signature is written in a cursive style.

Michel Samson, CPA, CA
Interim Auditor General of Quebec

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?

Several suggested improvements have information value. However, we would challenge who has the responsibility to provide such information (see response to questions 2, 3 and 8 below). Impediments to the improvements are in some cases substantial as identified below, and it is difficult to conclude that the perceived benefits of some improvements outweigh the costs as outlined below. Furthermore, with the accrued length of the report, there's a risk that the users don't go through all of the items with the same consideration.

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

First, we consider that the "information gap" should be addressed by other means than by the standard auditor's report on financial statements. We are of the opinion that the audit committee should be aware of the significant additional information required by users of these financial statements through the audit plan and audit results that are communicated to members of this audit committee. Consequently, we consider that the information gap could be offset by the audit committee's accountability.

Moreover, information gap could be presented in other complementary reports such as internal controls certification.

Currently, in our organization, for the third year running, we are using a new type of auditor's report on financial information and other related work. This report was created in response to strong interest in financial matters from members of parliament. Its purpose is to make use of our expertise in this field and our knowledge of the financial situation of entities whose financial statements we audit for parliamentarians. You can view an extract of this report on our Web site¹. The issues addressed can vary from one year to another. As an example, in chapter 3, we publish additional information on qualifications issued in auditor's reports on financial statements in the course of the year.

One additional consideration for improving the auditor's report would be to further differentiate the wording of an opinion on financial statements prepared in accordance with a compliance framework from an opinion on financial statements prepared in accordance with the requirements of a fair presentation framework. In our view, opinions using the word "prepared" and the phrase "presents fairly" are not adequately differentiated from one another and a reader may misinterpret the conclusion provided. One alternative for a compliance framework would be to word the opinion as "In our opinion, the financial statements are prepared in compliance with XYZ Law of Jurisdiction X, in all material respects."

¹ http://www.vgq.qc.ca/en/en_publications/en_rapport-annuel/en_fichiers/en_Highlights2010-2011-AFI.pdf

Auditor Commentary

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?

We do believe that it is management's responsibility to ensure its financial statements provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The role of the auditor and accounting standards boards is to ensure financial statements prepared in accordance with general purpose reporting frameworks meet this objective and to conclude with an opinion. Putting more emphasis on some specific items could be interpreted as somehow the opinion seems not to be clear at all. Except in circumstances of modified opinions or emphasis of matter or other matter paragraphs, we do not believe an auditor's report on the results of an audit of financial statements should normally provide information to users that should have been presented by management under their responsibilities for financial reporting.

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?²

As noted in the ITC, ISAs currently require the use of Emphasis of Matter or Other Matter paragraphs in an auditor's report in response to certain circumstances. The application of a more holistic concept of Auditor Commentary may impair consistency of reporting as it relates to these required communications.

5. Do the illustrative examples of Auditor Commentary³ 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 the audit procedures and related results in Auditor Commentary?

The example about the auditor's response to the risk related to the valuation of financial instruments could create a perverted effect on the users of the financial statements: the aim of invested efforts by the auditor resulting from his professional judgment, in accordance to general audit standards, is to obtain sufficient and appropriate audit evidence in order to support his audit opinion. These efforts don't contribute at all to reduce complexity and risk related to the valuation of financial instruments. The illustrative example concerning the audit strategy related to revenue, accounts receivable and cash receipts does not have informational or decision making value as the presented commentary does not communicate any significant impact of the system change on the financial statements or audit strategy that is important to the user of the financial statements. The audit strategy is already explained to the audit committee. (see also the answer to # 2).

A general description of the audit procedures is included in the commentary for some items only which may cause the user of the report to question what procedures, if any, were performed on other matters communicated. For greater consistency, it is preferable that no procedures be

² Examples may include: specifying detailed criteria; specifying particular matters to be addressed in Auditor Commentary; specifying a presumptive requirement together with required audit documentation where the presumption is rebutted; requiring an explicit statement that there is nothing to report when this is the case.

³ The illustrative examples of Auditor Commentary are intended to simulate the nature and content expected from the application of the Auditor Commentary concept described in the IAASB's Invitation to Comment.

referenced in the Auditor Commentary. Further, we believe the nature and extent of audit testing is more comprehensively and appropriately described in the Auditor's Responsibility section of the report.

The auditor's conclusion or evaluation of the outcome of each of these matters as it relates to the financial statements is reflected in the opinion on the financial statements. We do not support the communication of multiple conclusions on specific matters (such as the valuation of Financial Instruments) throughout an auditor's report. The auditor's report should express one conclusion on the financial statements taken as a whole. This principle has been reinforced in the introductory text provided to the illustrative Auditor Commentary, which has stated: "Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures." As a result, we would not support the inclusion of related results in the Auditor Commentary.

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, the timing of financial statements and costs?

We share concerns of cost (both financial and timing of release) impediments related to providing Auditor Commentary as outlined in paragraph 62 of the ITC. We fully expect increases in audit costs related to the preparation and finalization of Auditor Commentary content within statutory or other regulatory financial statement filing deadlines. Audit costs in a legislative audit environment may be paid from the public purse rather than by the audited entity.

We would also note that we expect the inclusion of additional Auditor Commentary beyond the scope of current Emphasis of Matter and Other Matter requirements will create additional tension between auditor and preparer and an additional delay to the signature of the opinion.

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?

Public Sector entities may have unique legislative environments and standing as it relates to securities legislation. As such, it is important that the scope of application of the requirement for Auditor Commentary provides for the application of auditor judgment in the circumstances of the engagement. Therefore we would agree with leaving inclusion of Auditor Commentary to the discretion of the auditor for non-PIE audits.

Providing Auditor Commentary for audits of all entities, regardless of the entity type, size, and complexity of financial reporting would not sufficiently respond to the environment in which many audits are conducted. For example, there appears to be little need for auditor commentary in situations where users of financial statements have direct access to management should a specific information need exist. Our view is that a requirement for Auditor Commentary in each auditor's report would result in unnecessary engagement costs.

We recognize the need to define the situation in which an Auditor Commentary would be required, however, providing a global definition of a PIE to support this objective has many challenges. To achieve a minimum consistency of application at a national level, national standard setters should define or replace the terms "listed entity" and "public interest entity" in a manner that clarifies national application that is consistent with national legislative and/or ethical requirements.

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?

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Management's assumption of going concern in the preparation of its financial statements has a significant impact on financial reporting measurement and presentation.

We agree that coordination between the IAASB and IASB is important in this area. This coordination should ensure that management retains the primary responsibility to provide users with information regarding potential going concern issues. In our view, this is an important precondition to expanding an auditor's reporting responsibilities with regard to going concern. Moreover, a definition of what material uncertainties consist on could be necessary for auditors in the evaluation of the matter.

It is difficult, however, to see the value in regular, required reporting of the auditor's conclusion on the appropriateness of the use of the going concern assumption since this conclusion is evidenced in the auditor's conclusion on the financial statements which includes as one aspect the appropriateness of the measurement basis applied to reported assets and liabilities. A definition of what material uncertainties could be is necessary to allow some guideline for the auditor in his conclusion.

In the public sector, regular reporting may in fact be of low value as it may be confusing to the reader of the auditor's report who would wonder why the auditor is referring to such a consideration. Within the public sector, we observe varying degrees of inherent risk associated with the going concern assumption. For sovereign governments and reporting entities whose operations are funded entirely by parliamentary authority (vote, appropriation, or similar) the going concern assumption may require less analysis. Going concern assumption risks are more likely to arise in public sector entities that are carrying on a business selling goods/services as their principal activity to maintain their operations and meet their liabilities from revenues received from sources outside the government reporting entity (government business enterprises). Even in these cases, exception based reporting draws more attention to the issue of going concern when doubts exist as to the ability of the entity to continue as a going concern and we see more value in the exception based reporting of going concern currently applied by ISA 570. For example, we consider it is especially difficult for an auditor to appreciate and conclude about the going concept related to a defined benefit pension plan. It could be an additional source of tension and discussion between auditor and management and therefore a delay to the reporting date.

Furthermore, auditor had among others, to evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosure made by management, to evaluate the overall presentation, structure and content of the financial statements. We don't see any suggestion related to these responsibilities; therefore, we don't see how it could be important to have a conclusion in the report about going concern.

Other suggestion: In the paragraph concerning the Auditor's responsibility, we could add a new bullet « Evaluate the appropriateness of management's use of the going concern assumption in the preparation of the financial statements »

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 above.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

An auditor's review of other information in accordance with ISA 720 is performed to identify and resolve instances where the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. Where material inconsistencies or misstatements of fact are identified, they are resolved in accordance with ISA 720.

While associated with the other information, the auditor's opinion is not intended to cover this information. As presented, the illustrative opinion goes beyond existing requirements by expressing a conclusion on the other information rather than limiting the auditor's conclusions to the financial statements and related assumptions. As such, stating a conclusion in respect of the other information may, regardless of the disclaimer that the information has not been audited, increase the expectations gap.

We see further impediments from the timing of review of this other information. In order to conclude on the other information as communicated in the illustrative auditor's report, the auditor must have reviewed the other information as of the date of the report. Stating such a conclusion may not be practical as it is common for an annual report, which includes the audited financial statements, to be prepared and finalized well after the date of the auditor's report currently derived from the application of ISA 700. As such, we see the requirement to report on other information as having a negative impact on the date of the auditor's report and, as a consequence, the subsequent event's period. In addition, the illustrative reporting model limits the use of the auditor's report to those situations where the audited financial statements and identified other information are presented together in the same publication since the document containing the other information is to be identified in the auditor's report. This negatively impacts the ability to use the auditor's report, with the consent of the auditor, in other scenarios such as a prospectus or other offering document.

Should additional representations be presented concerning the review of other information, it would be more appropriate to include this as a generic description of responsibilities within the description of the auditor's responsibilities, focussing the description on the purpose of a review and the situations where it occurs.

Clarifications and Transparency

11. Do you believe the enhanced description of the responsibilities of management, those charged with governance, 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?

The enhanced description of the auditor's responsibilities is specifically tied to ISA requirements. Given the broad group of users that may rely on an auditor's report on general purpose financial statements, it would be more efficient to describe only the auditor's minimum responsibilities applicable to all engagements conducted in accordance with ISA's rather than adding or removing responsibilities depending on the entity subject to audit. As such, no reference would be made to communication with those charged with governance concerning relationships and matters thought to bear on independence. A description of this responsibility is likely only of interest to the limited user group who receive such communication directly from the auditor in compliance with ISA 260.

Having communicated the minimum requirements sourced from ISA's, auditors with reporting responsibilities established in law or regulation that are incremental to their responsibilities under ISA's should communicate these responsibilities – for example, legislative auditors may have a requirement to provide an opinion on whether the transactions coming to our notice in the course of our audit were, in all significant respects, in accordance with specified authority instrument or an obligation to bring to the attention of Parliament any "other matter" that we believe is significant.

It is questionable whether users of the auditor's report will understand the language used to describe group auditor responsibilities. It would be preferable not to use language such as "group" or "component" auditor as these terms will only have specific meaning to the auditor.

Given its importance, a description of the materiality concept could be added to the auditor's responsibilities description to complement the inclusion of a definition of reasonable assurance.

Auditor communications to those charged with governance will need to be aligned to the responsibility descriptions in the illustrative auditor's report to ensure a consistent communication and understanding of responsibilities.

12. What are your views on the value and impediments of disclosing the name of the engagement partner?

In the public sector, as stipulated in the law, the authority to sign an assurance engagement report may be limited to the individual appointed to the role of Auditor General or those individuals to whom such authority is delegated by the Auditor General. In those instances where reports may only be signed by the Auditor General, individuals other than the Auditor General typically perform the role of engagement partner.

In the entities other than public sector, for a better imputability, it could be relevant that reports be signed with the personal signature of the engagement partner and not with the name of the firm.

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 disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary?

Auditors may involve others in the process of obtaining sufficient appropriate evidence such as members of internal audit, an actuary, an auditor's expert or a component auditor. Additionally, some audits are conducted jointly with other audit firms due to the appointment of Joint auditors.

The precision required in the discussion of the involvement of other auditors may be an impediment to its inclusion in the auditor's report. In a joint audit scenario, caution would have to be taken to ensure the auditor commentary or responsibility discussion is not misinterpreted to be a discussion of the joint auditors' respective roles and responsibilities as we do not believe this is the intended application of the proposed standard. In other terms, such disclosure could be misinterpreted as a kind of sharing responsibilities between group auditor and other joint auditors. In fact, the group auditor is responsible for the direction, supervision and performance of the whole group audit including all the components.

The illustrative wording of the auditor's report does not appear to include in its scope an auditor's use of internal audit or auditor's experts each of whom would appear to meet the definition of other auditors. As a result, the scope of the communication is currently unclear.

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?

Moving the paragraphs on auditor's responsibilities to a separate document brings the risk that they would not be read simultaneously with the opinion and it could lead to a false interpretation of the limitation inherent to the audit.

Concerning the use of a website - while we understand the value that may be realized from such an approach, the ITC does not identify that the passage of time is an impediment to this approach. Where an auditor's responsibilities are linked/referenced to the auditor's report rather than directly included, linked content may be updated, replaced or removed from the related website. This would negatively impact the auditor's report should a reader rely on a linked description of an auditor's responsibility that was not actually in effect at the time of the audit engagement. A broken link would negatively impact value as well.

Concerning the use of an appendix – while we would prefer that an auditor's report be complete without the use of appendices or other supplementary material, the use of an appendix may be an acceptable compromise to shorten the core auditor's report should additional reporting responsibilities such as Auditor Commentary result in an auditor's report spanning multiple pages as currently illustrated in the Invitation to Comment.

It is unclear why the auditor's responsibilities content of the auditor's report is a candidate for inclusion in an appendix, while no such proposal is made in respect of the Auditor Commentary.

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?

Auditors of public sector organizations often have additional reporting requirements established or expressly permitted in law. For example, in Quebec, auditors of health and education sectors are required to report on the consistent application of accounting principles and entity compliance with laws and regulations within the auditor's report. Under current auditing standards, these additional reporting requirements are reported under the heading of Report on Other Legal and Regulatory Requirements, immediately following the opinion on the financial statements. Moving the opinion paragraph to the beginning of the auditor's report may negatively impact the ability to keep all opinions and communications of other matters in close proximity in the auditor's report and may

detract from these additional reporting requirements that are also important to users as established by law.

Certain matters that may be included in auditor commentary (such as a communication that prior period financial statements were not audited) are most appropriately communicated in close proximity to the opinion paragraph. It is unclear if the illustrative report ordering can accommodate circumstances where Auditor Commentary is most appropriately communicated in close proximity to the opinion paragraph. See also the answer to question # 14.

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?

We support consistent application of reporting standards.

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?

Refer to the response to question 15 – in our view, certain components of the auditor's report should remain in close proximity to the opinion paragraph. The ordering of items presented in the illustrative report may not permit this.

Presenting the opinion first might result in reader's failing to read other paragraphs.

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?

We would suggest the IAASB further take into consideration:

- o For public sector, not linking the requirement to sign an auditor's report to the definition of "engagement partner" to accommodate legislative reporting environments;*
- o For both the public and private sectors: Ensuring the proposed standard allows for the application of auditor judgment with respect to the inclusion of an Auditor Commentary section within the auditor's report. Circumstances should be precise between considering Auditor commentary section with using the emphasis matter paragraph and other matter paragraph;*
- o For both the public and private sectors: The inclusion in Auditor's Responsibilities of the responsibilities established in law or regulation that are incremental to those established in the ISAs.*