

October 4, 2012



Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue – 14th Floor
New York, NY 10019
U.S.A

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

Dear Mr. Gunn:

The Canadian Performance Reporting Board (CPRB) and its Small Company Advisory Group (SCAG) value the opportunity to respond to the *Invitation to Comment (ITC): Improving the Auditor's Report* issued by the International Auditing and Assurance Standards Board (IAASB). This response was developed based on comments provided by members of the CPRB and the SCAG.

The CPRB is authorized by the Board of Directors of the Canadian Institute of Chartered Accountants (CICA) to publish research and guidance on issues and practices related to business reporting that it considers to be in the public interest. Members of the CPRB are drawn from the primary stakeholders in the business reporting community – senior financial management, audit committee chairs, investors, auditors, and financial academics.

The SCAG is charged with providing CICA advice about the needs of small Canadian public companies. Members of the SCAG all work in this important sector of the Canadian economy as senior financial management, audit committee chairs, or auditors.

Decisions on the content for auditors' reports should be made in the public interest, considering the needs, costs, and benefits for all affected stakeholders. While we support the efforts of the IAASB to improve users' understanding of audits through improved transparency of the audit process, we believe many of the suggestions in the ITC will not achieve this objective. In our view, many of the goals outlined in the ITC would better be approached through improvements to financial reporting and governance standards.

We believe the inclusion of an auditor commentary will result in a boilerplate summary that is likely to confuse rather than inform users and will involve significant additional cost for shareholders. Similarly, we believe reporting on going concern in every auditor's report will detract from existing practice that highlights circumstances when legitimate concerns exist. As well, users may perceive such commentary as auditor assurance about the entity's future viability, further widening the expectations gap.

In the Appendix to this letter we provide more detailed comments about various questions in the Invitation to Comment.

If you have any questions or require additional information, please contact the CICA staff member responsible for the CPRB, Mr. Chris Hicks, CA at chris.hicks@cica.ca.

Yours truly,

Tom Chambers, FCA
Chair, Canadian Performance Reporting Board

cc: Mark Davies, CIA, CA
Chair, Auditing and Assurance Standards Board (Canada)

APPENDIX – RESPONSES TO QUESTIONS

Below are responses to selected IAASB questions based on the comments received. The question number below corresponds to the specific IAASB question number.

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?

We agree that there is room for improvement in this area and appreciate the efforts of the IAASB to enhance the value of the auditor's report for users. However, based on the comments received from preparers, auditors, those charged with governance, and investors, the first three suggested areas of change noted below are not anticipated to enhance the relevance or informational value of the auditor's report. There was some support for the last two areas of suggested changes.

Main area of change	Relevant and Adds Informational Value
Additional information in the auditor's report to highlight matters	No – refer to questions 3 & 6
Auditor statement on the appropriateness of management's use of the going concern assumption	No – refer to question 8
Auditor statement in relation to other information	No – refer to question 10
Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report	Yes – refer to question 15
Further suggestions to provide clarity and transparency about audits performed in accordance with ISAs	Yes – refer to questions 11 & 12

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 appreciate the concept of providing more information to users, but are not in favour of using the auditor's report to provide more information about either the financial statements or the audit. While investors noted that they would like more information about the audit, they believed that any such commentary would inevitably become boilerplate disclosure, resulting in a longer less meaningful report. Further, commentators believe that information about the entity and its financial statements should be reported in the financial statements and the Management Commentary (MC), not in the auditor's report.

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?

Commentators noted a number of implications for the financial reporting process:

- Users may place undue emphasis on the highlights in the auditor's report as opposed to reading the financial statements. Commentators believe that users need to read the publicly-filed documents such as the financial statements and MC to obtain a real understanding of an entity's performance. Reading information about only selected parts of financial statements within an auditor's report could be very misleading to a reader's understanding of those financial statements in their entirety.
- Rather than highlighting matters in the auditor's report, attention should be given to reviewing the adequacy of financial reporting standards and regulations and governance regulations.

- The auditor commentary proposals will increase the expectation gap by further blurring users' understanding of management's responsibility for preparing the financial statements, the auditor's responsibility for auditing the financial statements, and TCWG's responsibility to oversee the work of both management and the auditor and the relationship between them.
- Highlighting one or a few aspects of the audit may bring into question the auditor's opinion on the financial statements as a whole.
- Providing additional information in the auditor's report will increase the time to complete the audit and make it more difficult for companies to meet regulatory filing deadlines.
- Auditor commentary will inevitably increase audit fees without providing the anticipated benefits to the user.
- Providing commentary about specific aspects of the financial statements could challenge auditor independence.

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?

Commentators do not support the proposed addition of an auditor statement related to going concern:

- If this area needs further disclosure, then it should be a required disclosure in the financial statements, not in the auditor's report.
- The proposal would result in further ambiguity for users in determining where responsibility lies with respect to assessing going concern – the company versus the auditor.
- This change does not address financial crisis concerns and may increase the legal exposure of auditors with respect to business failure as opposed to an accounting failure.
- A risk exists that inclusion of auditor statements regarding material uncertainties may inappropriately be used by some auditors as an alternative to providing a modification to the auditor's opinion.

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

If the auditor is required to provide a statement about other information, users may perceive the auditor's responsibility for that information to be higher than it actually is, increasing, rather than decreasing the expectation gap. We do not find the sample wording in the suggested report helpful in this regard. In practice, this change will also result in an increase in auditor work and audit fees. As well, it may be confusing for an auditor's report on financial statements to contain a commentary about information outside the 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?

We support the changes to enhance the descriptions of the responsibilities of management, those charged with governance (TCWG), and the auditor. However, we must reiterate that most users prefer a simplified report that is easy to read and understand. Enhancing descriptions of responsibilities will make the report

longer and therefore potentially more difficult to understand. Deviations from standard wording for modified opinions should stand out and not risk being obscured by explanatory or other additional paragraphs.

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

We received mixed feedback in this area. Feedback received from users and preparers indicated they were not sure about the value-add of this change. Commentators did note, however, that other professions do include this type of information on their reports and they could see some merit in this concept.

Feedback from auditors indicated they were not in favour of this change as they did not feel it made the partner more responsible for the audit. As well, public knowledge of the audit partner name could result in unsolicited and unwarranted calls to the engagement partner. While it was noted that only one person is ultimately responsible as the engagement partner, it was also observed that typically a group of individuals within an audit firm work together to service a client and therefore highlighting one individual may not be representative of the audit process.

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?

We are not in favour of relocating the material that describes the auditor's responsibilities. This change would compromise users' understanding of the scope of the audit and the distinction between the roles of management and the auditor, thereby widening the expectations gap. In our view, an auditor's report would not be complete without a description of management's and the auditor's responsibilities. Relocating this information to areas outside of the auditor's report will decrease the probability that users will read the information. As well, this proposal would result in differences in format between different auditor reports, in conflict with the general concept of consistency for auditor's reports.

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?

In general, we are not opposed to changes proposed for the form and structure of the auditor's report, provided they are consistent for all audit reports. One consistent message we received was that the opinion paragraph should have a prominent location in the auditor's report and this is consistent with the proposals.