



5 October 2012

Mr. James Gunn
IAASB Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

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

Dear Sir:

Thank you for the opportunity to comment on the IAASB's invitation to comment – Improving the Auditor's Report. I am responding on behalf of the Office of the Auditor General of Canada.

Our responses to the specific questions posed in the exposure draft are provided below.

Sincerely,

Stuart Barr
Assistant Auditor General

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 question 3 and 8 below). Impediments to the improvements are in some cases substantial, and it is difficult to conclude that the perceived benefits of some improvements outweigh the costs as outlined below.

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.

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."

More broadly, we feel a significant improvement could be made to auditor reporting through revisions to ISA 210.19. Within a legislative audit environment, paragraph 19, Financial Reporting Framework Prescribed by Law or Regulation becomes quite problematic when the auditor is mandated by legislation to undertake the audit engagement. While the ISA provides auditors with conditions they may apply to their acceptance of an engagement where they would otherwise consider the financial reporting framework to be unacceptable, paragraph 20 of the ISA recognizes that in certain circumstances legislative auditors may not decline an audit engagement and they shall be required to consider the effect of the misleading nature of the financial information on users and on the auditor's report.

In our view, there should not be a presumption that a financial reporting framework prescribed by legislation and established by a government, for the preparation of government's own financial statements or the financial statements of organizations within the government reporting entity, is acceptable.

While we recognize the supremacy of law, we find the approach outlined in paragraph 19 and 20 of ISA 210 has a significant negative impact on financial reporting and the independent auditor's report. This is observed since the acceptable solution to the issue is to add disclosure to the financial statements and amend the auditor's report. Note disclosure is not to be used as a substitute for proper accounting treatment. Further, changing the wording of the opinion paragraph from "presents fairly" to "prepared" is a subtle change to the opinion paragraph that may not be noted by readers of the auditor's report. In our opinion, this approach is an erosion of the value of the audit and provides governments in particular with greater latitude to establish or amend reporting frameworks through law or regulation to suit their purposes with limited consequences which may harm the public interest.

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 not share the view that auditors should provide more information to users through the auditor's report. In our view, auditors add credibility to financial reporting but should not be a direct source of information about the entity. 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 board is to ensure financial statements prepared in accordance with general purpose reporting frameworks meet this objective. Use of an auditor's report to bridge information gaps is not, in our view, appropriate. Reasons for Auditor Commentary provided in paragraph 36 of the Invitation to Comment appear to be primarily identified weaknesses in the quality of financial reporting – something best addressed within the financial reporting itself.

Except in circumstances of modified opinions or Emphasis of Matter or Other Matters, 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? ¹

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. As such, indicating certain matters are a minimum auditor commentary may be a more appropriate strategy to ensure consistency of reporting in certain circumstances. These matters would need to be more specific than the concepts captured in ITC paragraph 45. We support the need for more specific criteria to guide the application of professional judgment in identifying matters for Auditor Commentary. This may have the further benefit of a more centralized discussion of Auditor Commentary matters rather than the current allocation of references to Emphasis of Matter and Other Matters that are presented in various ISAs.

5. Do the illustrative examples of Auditor Commentary² 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 illustrative example concerning the audit strategy relating 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

¹ 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.

² 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.

statements.

A general description of the audit procedures is only included for some items in the commentary 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 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. In a legislative audit environment, these additional audit costs may be paid from the public purse rather than by the audited entity.

We would also note that the inclusion of additional Auditor Commentary beyond the scope of current Emphasis of Matter and Other Matter requirements may create additional tension between auditor and preparer.

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 provide 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 might 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 statements 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 any incremental auditor reporting responsibilities with regard to going concern.

As no change is currently proposed to an auditor's responsibilities for assessing the going concern assumption, it is difficult 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 already 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.

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. 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.

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 response to question 8.

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 determined from the application of the current ISA 700. As such, we see the requirement to report on other information having an impact on the date of the auditor's report (it may be later than had this reporting requirement not existed) and, as a consequence, the subsequent event's period would be extended.

The illustrative reporting model may limit 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 may impact 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 auditor 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 consistent to describe only the auditor's 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 standard responsibilities 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 their notice in the course of their 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 they 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 may 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.

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

It is important that an internationally applied standard accommodate reporting environments impacted by law or regulation to allow legislative auditors, for example, to respect the legal authorities that may need to be applied in reporting. One alternate method to achieve the intended improvement to reporting would be to simply require that reports be signed with the personal signature of an individual and not the name of a 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 auditor's expert or a component auditor. In Canada, in some instances auditors are required by legislation to rely on internal audits where practicable. 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 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.

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. The illustrative report is silent with respect to the involvement of these parties. As a result, the scope of the communication expected is currently unclear.

We do see value in a requirement to report on the extent of involvement of other auditors to demonstrate auditor compliance with certain legislative requirements in Canada concerning reliance on internal audit where practical - as long as a reference to the use of internal audit work is not included in the portion of the report in which the auditor's opinion or conclusions are stated.

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?

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 could 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 for this, or other report sections may be an acceptable compromise to shorten the core auditor's report should additional reporting responsibilities result in an auditor's report spanning multiple pages as currently illustrated in the Invitation to Comment.

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 Canada, auditors of federal crown corporation 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 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.

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 global consistency in auditor's reports.

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

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. In our view, the IAASB should not mandate the ordering of the components of the report.

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?

As noted previously, we do not believe the suggested improvements regarding going concern are necessarily of high value to public sector entities.

We would suggest the IAASB further take into consideration:

- not linking the requirement to sign an auditor's report to the definition of "engagement partner" to accommodate legislative reporting environments where legislation may prescribe who may, or may not, sign the auditor's report*
- 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*
- the inclusion in Auditor's Responsibilities the responsibilities established in law or regulation that are incremental to those established in the ISAs.*