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Hamilton, October 5, 2012

INITIALLY TRANSMITTED VIA
E-MAIL TO: JAMESGUNN@IAASB.ORG

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue - 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Gunn:

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

Taylor Leibow LLP is pleased to provide our comments to the above noted Invitation to Comment and provide feedback on the suggested improvements to the Auditor's Report. This topic is of great interest to our firm as we perform a number of audits. Our audit clients are primarily small-to-medium-sized owner-managed businesses and private not-for-profit organizations. We perform no audits of listed entities; therefore, overall we see limited value in these suggested improvements to the Auditor's Report that will benefit the users of the financial statements of our audit clients.

The following are our responses to the questions raised in the Invitation to Comment.

<u>Overall Considerations</u>

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?*

In our opinion, based on the audit clients of our firm and their financial statement users, we believe that the impediments and costs associated with these suggested improvements greatly outweigh the informational value of these audit report improvements to these users. These users are typically the shareholders and lenders who have the ability to access and inquire of management to obtain any further information needed to perform their analysis and make their informed decisions.

In relation to public interest entities, the more information that is provided to users in the auditor's report attached to the financial statements can add some value as it will lessen the information and expectation gaps. However, this is only true if the user is not overwhelmed with information provided to them and the user diligently reads the entire auditor's report, which would be a lengthy document. In addition, the user must have the sophistication to understand what they are reading. Many users are passive investors who are only concerned that an audit has been done and the pass/fail conclusion the auditor currently provides. The additional costs of the auditor to provide this information and the increased potential for liability can be quite significant, and may not be worth the added value of these suggested improvements to the auditor's report.

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.*

We suggest no other alternatives to improve the auditor's report. The current format of the report is sufficient for the users of our audit clients.

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 are not in favour of the concept of Auditor Commentary and believe it to be inappropriate for the following reasons:

   - It will greatly expand the length of the auditor's report which increases the chance that the users may not even take the time to read the information in Auditor Commentary. If the information is not read, there is no value to it.

   - If the user does take the time to read Auditor Commentary, only a limited number of those users would be sophisticated enough to understand the information. Less sophisticated users may find the information confusing or could misinterpret it.

- The auditor's responsibility is to express an opinion on the financial statements taken as a whole. It is management's responsibility to provide information on matters that may be significant to a user's understanding of their financial statements. If Auditor Commentary is used, that responsibility appears to be shifted to the auditor.

- The information provided in Auditor Commentary may not be consistent with information on the same topic provided by management to the financial statement users through Management Discussion and Analysis or other reporting mechanisms.

- The information provided in Auditor Commentary is what the auditor thinks, in their opinion, would be relevant to the user. If the auditor excludes some information, this will increase the legal liability to the auditor. As such, auditors may decide to disclose "everything", making the audit report less relevant to the users.

- Also, with the increased fear of legal liability to the auditor, some auditors may provide more generic, boilerplate commentary which is of no great value to the user.

- Auditors of different entities within the same industry will have differing views (i.e. judgment) of what to include in Auditor Commentary, making user comparisons of the entities that much more difficult.

- The costs of the audit will increase as it will be the senior members of the audit engagement team preparing the Auditor Commentary and there will be extra time involved in the audit firm's quality review process.

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?*

For the financial statement user to be able to compare audit reports of entities within the same industry sector, the IAASB will have to revise the standards to provide specific guidance and rules of what "shall" be included in the Auditor Commentary section of the auditor's report.

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?*

The first two illustrative examples reference and summarize disclosures provided with the financial statements and other information prepared by management and draws attention to these significant matters. These disclosures are the responsibility of management, so our concern is why is it now the auditor's responsibility to highlight these issues for the user? If management did not properly account for or disclose these matters in the financial statements, it would then be the auditor's responsibility to determine if the audit report should be qualified, and modify the audit opinion accordingly.

The next two illustrative examples disclose audit procedures that were performed in specific high risk areas. As we mentioned earlier, the auditor's responsibility is to express an opinion on the financial statements as a whole. It is beyond the scope of the audit report for the Auditor Commentary to breakdown the audit into what was done in various sections and to conclude on the results of those procedures. Also, we do not believe the auditor can appropriately convey in a paragraph to the user the reasoning behind the high risk assessment, the extent of the audit work effort performed in that area and the auditor's significant judgments involved.

The final illustrative example discloses the involvement of other auditors, for which we see no value to the user as explained in our comments to Question 13.

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?*

The financial reporting process will require more time and effort, resulting in a later release of the audited financial statements to the users and increased audit fees. Senior members of the audit engagement team will incur additional time drafting the Auditor Commentary that will not provide meaningful benefits to users.

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?*

The financial statement users of PIEs have different needs than the financial statement users of private entities and not-for-profit organizations. The Auditor Commentary the IAASB is suggesting would not add much value to the reporting done for private entities and not-for-profit organizations and thus we firmly believe that they should be exempt.

If Auditor Commentary is required by these entities, the audit fees charged to these entities will increase due to the additional work to be done. As there is little value in providing this information to their financial statement users, our audit clients may feel increased pressure to downgrade their audit to a review engagement to avoid these additional costs.

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?*

Under the current audit reporting model, if use of the going concern assumption is not appropriate, the audit report opinion should be qualified. If there is no qualification with regards to going concern, then the report "implicitly" concludes that the use of the going concern assumption is appropriate. By suggesting that the auditor now make an explicit conclusion in their report in regards to going concern, there is some value to the user to see that conclusion statement. To provide the conclusion statement, not much more work would be required by the auditor other than currently required under ISA 570.

In regards to the auditor providing a statement whether material uncertainties have been identified, there is some value to the user; but there are also great impediments to the auditor in regards to providing that information. An audit is designed to provide an opinion on the historical results of the entity. An audit is not designed to look into a "crystal ball", predict the future and provide assurance to the user on the future viability of the entity. It is management's responsibility for the going concern assessment and the information they provide in their MD&A should be sufficient for the user to make their own conclusion on this matter. For the auditor to provide a statement on material uncertainties that will be more work and considerable use of professional judgment. We are also concerned about unsophisticated users of the financial statements misinterpreting the information and thinking that the auditor is providing a conclusion about the entity's future viability, profitability and sustainability.

If the IAASB does go forward and require the auditor to include statements and a conclusion relating to going concern, we would suggest that these requirements only apply to listed entities, much like the Auditor Commentary section.

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?*

As described above in our answer to Question 8, the going concern assessment is management's responsibility. We do not support including any additional information from the auditor in this area.

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

We agree that there is value to the user in having the auditor explain their involvement with respect to other information in documents containing financial statements. It is important that a disclaimer be added, as suggested, that the auditor has not audited the other information as part of the audit of the financial statements. We recommend that this suggested auditor statement only apply to listed entities.

Clarifications and Transparency

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?*

The enhanced descriptions of the various responsibilities will help users better understand the role of the auditor and the nature and scope of an audit, thus narrowing the expectations gap. The value of providing this information will only be seen if the financial statement user takes the time to read it and if they understand it. Therefore, it is important that these descriptions do not become too lengthy or use too many technical terms that may be easily misunderstood.

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

What difference will it make to the user if they see "John Smith" or "Jane Doe" identified in the auditor's report as the engagement partner? We do not see any value in disclosing the name of the engagement partner in the auditor's report.

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?*

The financial statement users that our Firm deals with will not see any value in disclosing the amount of involvement of other auditors. These users will not take the time to evaluate the other auditor. The users are only concerned with the audit opinion provided by the group auditor as it is the group auditor's sole responsibility to do so. All the user needs to know is that it is the group auditor's responsibility for the planning, performance and review of the component auditor's work as it relates to the group financial statement audit, and this is appropriately explained in the Auditor's Responsibility section of the report.

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?*

Our concern on relocating the information describing the auditor's responsibilities to someplace other than the auditor's report is that the financial statement user will not take the time to go to that other place to read the information. We feel the auditor's report would not be complete without a description of the auditor's responsibilities to help reduce the expectations gap. If this information must be moved elsewhere, we suggest an appendix to the auditor's report as our preferred alternative as that would be more readily available for users to access than for them to go to a separate 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 most important to users?*

We agree that the auditor's opinion should be placed at the beginning of the report. The opinion is the most important message in the entire report, therefore it should be placed up front and center for the users to read. The Auditor Commentary section, if used, should also go near the front end of the report.

16. *What are your views regarding the need for global consistency in auditor's reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used?*

We agree that there is a need for global consistency in auditor's reports. Many clients operate in a global economy and it only makes sense that there be consistency so that financial statement users around the world can understand and compare auditor's reports.

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?*

There will be better consistency in auditor's reports across the globe should the IAASB mandate the ordering of items in a manner similar to that shown in the illustrative report. As outlined in Appendix 4 to the ITC, there will be opportunities to tailor the report at the national level should the need for this flexibility arise.

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?*

The audit clients of our Firm are all small-to-medium-sized private entities and not-for-profit organizations. As outlined throughout our comments, we do not believe these suggested improvements are appropriate for these types of entities. The extra costs to provide this additional information greatly exceed any benefit to the users of our client's financial statements, and it may just confuse them if the information is misinterpreted. These users typically have ready access to management of the entity to request any additional information they might need.

Although we have always been taught that an audit is an audit regardless of whether it is of a listed entity or a small private entity, it appears we may be heading down a path of separate audit reporting requirements for these different types of entities ("big" ISAs vs. "little" ISAs). The suggested improvements will add value to the users of listed entity financial statements, but for private entities and not-for-profit entities the additional costs and impediments of providing all this additional information will greatly exceed what little value will be provided to their users. The additional costs to these audit clients may make audits more inaccessible for them and they may have to downgrade to a review engagement.

If you have any questions regarding this, or require additional information, please contact us.

Yours very truly,

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