



Québec City, September 7th 2011

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

Subject: “Enhancing the Value of Auditor Reporting: Exploring Options for Change”

Dear Sir:

Attached please find the comments of the Auditor General of Québec in response to the Invitation to Comment on the Consultation Paper, *“Enhancing the Value of Auditor Reporting: Exploring Options for Change”* Issued by the International Auditing and Assurance Standards Board (IAASB)

Sincerely,

A handwritten signature in black ink, which appears to read "Renaud Lachance". The signature is written in a cursive, flowing style.

Renaud Lachance, FCA
Auditor General

BACKGROUND

Currently, in our organization, for the second 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.

Consequently, this new report enables us to respond in several ways to what the consultation paper refers to as an "information gap." 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 (see section D).

A- FORMAT AND STRUCTURE OF THE STANDARD AUDITOR'S REPORT:

The standard auditor's report is currently made up of a paragraph on the scope of the opinion, two paragraphs on management and auditor's responsibilities, and one paragraph for the opinion.

In our view, the current format is clear, and plainly sets out the context (scope and responsibilities of all stakeholders) together with the results of the audit (opinion) and other observations, if any. We do not agree with the proposed possible changes to the report: each paragraph has a purpose, the order in which the paragraphs are presented is entirely appropriate, and it is important that all the paragraphs be read simultaneously.

Presenting the opinion first might result in readers' failing to read the other paragraphs, a situation that could lead to a false interpretation of the limitations inherent to the audit. Moving the paragraphs on responsibilities to a separate document brings a risk that they would not be read simultaneously with the opinion. Similarly, paragraphs regarding responsibilities should not be deleted, as this would prevent the framework in which the opinion is issued from being delimited.

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

Accordingly, in our opinion, no modification is necessary. The new report model has already been discussed at length. We consider that the “the information gap” concerns audits for listed entities mainly because of the size of these entities and the number of stakeholders. With regard to governments, to our knowledge, the powers vested in higher control institutions enable them to respond to the needs of users of financial statements through derived public communications.

The advent of IFRS substantially increases the number of notes to financial statements. Currently, we are mainly concerned by the excessive quantity of information in financial statements and the multiple changes in both financial statements and auditor’s reports.

B- OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

CAS 720 sets out the auditor’s responsibilities when documents containing audited financial statements and the auditor’s report on these financial statements include other information that could compromise the credibility of the financial statements and the auditor’s report.

We welcome the proposal to include in the auditor’s report a statement regarding the auditor’s responsibilities with regard to the other information presented in documents containing audited financial statements and even a conclusion regarding this other information. This would make it possible to clearly establish the limits of the work performed by the auditor together with the conclusion of that work.

C- AUDITOR COMMENTARY ON MATTERS SIGNIFICANT TO USERS’ UNDERSTANDING OF THE AUDITED FINANCIAL STATEMENTS, OR OF THE AUDIT

We do not agree with the proposal to add a substantial quantity of additional commentary to the auditor’s report on financial statements for the purpose of confirming that he has performed the necessary auditing work on various zones at risk, because the main objective is to give an opinion on the reliability of the financial information as a whole. However, we do consider that the auditor should have the ability in light of generally accepted auditing standards (GAAS) to inform users of any situations that, in his opinion, should be brought to their attention in the body of his auditor’s report on financial statements whenever he deems it relevant. This type of provision generally exists in the public sector and is used on certain occasions in order to keep parliamentarians properly informed of a particular problem with the entity concerned (e.g. non-compliance with a law that has no effect on financial statements, but that is of interest for parliamentarians; major deficiency of an internal control; frequent changes in accounting policies, etc.). In our law, the wording is as follows: “*the Auditor General (...) makes any other comment he considers appropriate*”:

- ❖ The paragraph on management responsibilities clearly specifies that management is responsible for the preparation and faithful presentation of the financial statements in accordance with an applicable financial reporting framework and for the internal control that it considers necessary to allow preparation of financial statements free

from material misstatement, whether these are the result of fraud or error. This concept should be maintained.

- ❖ According to the paragraph on the auditor's responsibilities, our auditing work must comply with GAAS, which require that the auditor obtain sufficient evidence. The information gathered by the auditor in his audit is the result of the exercise of professional judgment. The result of the audit's conclusion – the opinion of the independent auditor – is an expert opinion and the auditing work is subject to quality control by the profession. Disclosing certain items of information that are within the scope of the auditor's strategy and analysis of risks is a level of detail that is of interest to the members of the audit committee as part of their responsibilities rather than an issue to be addressed in a standard auditor's report on financial statements. It is not necessary to overburden the standard auditor's report with additional information.
- ❖ Financial statements contain many critical estimates, management judgments and choices, and the application of accounting methods. Since it is incumbent upon management to prepare financial statements, the auditor must appraise these estimates and judgments and draw overall conclusions regarding important judgments in a standard auditor's report on financial statements. What is important for shareholders is that the auditor should also have the ability to disclose an abnormal situation even if technically it falls beneath the materiality threshold.
- ❖ In addition, we share the premise that it is generally acknowledged that the auditor has no responsibility regarding the communication of information on the entity to users of the audited financial statements. This responsibility must continue to be incumbent to management and those charged with governance. However, despite the notion of the confidentiality of information gathered during the audit, the auditor must have the ability, if he deems it necessary or relevant to users, to disclose more information concerning the entity pertaining to a major problem or a particular situation in his auditor's report on financial statements.

D- AN ENHANCED CORPORATE GOVERNANCE MODEL: ROLE OF THOSE CHARGED WITH GOVERNANCE REGARDING FINANCIAL INFORMATION AND THE EXTERNAL AUDIT

In keeping with our thoughts on point C, we welcome the proposal to improve the governance model by adding a report in the form of a declaration to shareholders by those charged with governance. Such a report would ensure accountability by the audit committee with regard to its responsibilities by providing information on its monitoring of the financial information process and of the audit. A guide specifying the elements that such a declaration by the entity should cover would be desirable. In addition, the auditor should be able to react, if necessary, on the report by those charged with governance as to the exhaustiveness and accuracy of the facts set out in this report, based on his general knowledge of the activities carried on by the committee.

E- OTHER ASSURANCE OR RELATED SERVICES ON INFORMATION NOT WITHIN THE CURRENT SCOPE OF THE FINANCIAL STATEMENT AUDIT

In response to specific needs of users, it might be pertinent to develop standards allowing the auditor to produce special reports on elements other than financial statements, but connected with the financial statements.