



September 16, 2011

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

Dear Sir or Madam:

**Re: Consultation Paper – Enhancing the Value of Auditor Reporting: Exploring Options for Change**

Canadian Natural Resources Limited ("Canadian Natural") is pleased to respond to the invitation to comment on the above noted consultation paper issued by the International Auditing and Assurance Standards Board ("IAASB").

Canadian Natural is a senior independent oil and gas exploration and production company headquartered in Calgary, Alberta, Canada, with operations in Western Canada, the North Sea, and offshore Africa. Our shares are publicly traded on the Toronto Stock Exchange and the New York Stock Exchange.

Canadian Natural is supportive of auditor reporting that meets the information needs of financial statement users. We believe that auditors play an important role in the financial reporting process and that the auditor's report provides financial statement users with assurance about the quality of the financial statements. However, we believe that many of the ideas the IAASB's consultation paper suggests for inclusion in the auditor's report are already covered by disclosures in the audited financial statements or in other public continuous disclosure documents such as Management's Discussion and Analysis ("MD&A"). We would not be supportive of significant changes to the auditor's report in these circumstances, as duplicating information already disclosed in the company's public disclosure documents will not enhance the quality, relevance or value of the auditor reporting.

Our responses to specific questions posed by the IAASB are attached as Appendix A.

If you have any questions or wish to discuss our comments in more detail, please do not hesitate to contact the undersigned.

Sincerely,

'Signed'

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"Signed"

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## Appendix – Responses to the Invitation to Comment

### Issues Identified

*1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?*

We do not agree with the “information gap” issues identified in paragraph 23 of the consultation paper and the statement that the information “is currently not available to users”.

Disclosure requirements in the financial statements, report on internal controls, MD&A, and other public continuous disclosure documents have been significantly expanded in recent years and currently include significant disclosures and discussion related to the items listed as necessary to be provided to narrow the information gap. Based on the dates of reports included in appendix 2 to the consultation paper, it is possible that certain of these reports rely on data that predates the introduction of the expanded disclosure requirements and the concerns raised in these reports may already have been addressed.

We also note that the current version of the auditor's report refers to the auditor's responsibility to evaluate the appropriateness of accounting principles and policies, accounting estimates, and overall presentation of the financial statements. The current version of the auditor's report for companies that must report under the Sarbanes Oxley Act also includes an opinion on the company's internal controls over financial reporting. Since these companies are already disclosing all of the identified information, and the auditor's report acknowledges the auditor's responsibility to evaluate those items, we do not see any additional benefit to financial statement users in expanding the auditor's report to specifically discuss the same items. This appears to overlap with the responsibilities of management for companies reporting in certain jurisdictions, such as Canadian Natural, which reports in Canada and the United States.

We do note, however, that certain of the above noted disclosures are contained in documents other than the audited financial statements. We believe that, rather than unnecessarily expanding the auditor's report to duplicate disclosures already included in other continuous disclosure documents, it may be beneficial to amend the auditor's report to refer to the extent of the auditor's involvement and responsibilities with respect to these other public documents. This reporting would be limited to a high level statement that the other continuous disclosure documents have been read for consistency with the audited financial statements. This may help to narrow the “expectations gap” and “information gap” discussed in the consultation paper without duplicating information that is already disclosed. It would be necessary to limit the documents covered by the auditor's report to those issued at the same time as the financial statements, as it would be costly to issue a new auditor's report every time a new document is issued.

*2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?*

As noted in our response to question 1, we do not believe that significant changes are required to the auditor's report to meet users' needs. However, we would support a change to the auditor's report that describes the extent of the auditor's involvement and responsibilities with other public documents that are related to and contain financial statement information, as noted above.



*3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?*

As noted above, we do not believe that significant changes are required for auditor reporting. However, if changes are made, we believe that auditor reporting requirements should be standard for all types of entities.

### **Exploring Options for Change**

#### **A. Format and Structure of the Standard Auditor's Report**

*4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?*

*5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?*

We do not agree with removing the paragraphs dealing with management and the auditor's responsibilities. We believe that it is important for financial statement users to understand the differences in the role and responsibilities of management and the auditor in order to properly evaluate the financial statements. In addition, we believe that the paragraphs on auditor's responsibilities are necessary for the user to understand the purpose and limitations of the audit, which helps to narrow the expectations gap.

We are not opposed to the proposal to re-ordering the paragraphs such that the auditor's opinion comes first, as this change does not impact the overall content of the auditor's report and as noted in the consultation paper, this is the section of the auditor's report of most interest to the users. However, we do have some concerns that the users may not read other sections of the auditor's report, particularly if the length of the auditor's report is increased significantly. We believe that the paragraphs on management and auditor's responsibilities are important for financial statement users to understand the context of the auditor's opinion.

We do not believe that major wording changes are required in auditor and management responsibilities paragraphs. Some minor wording changes could be made to improve the clarity of these paragraphs. However, without any specific examples of how the wording would be changed, we cannot conclusively state that the wording should be changed.

## **B. Other Information in Documents Containing Audited Financial Statements**

*6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?*

*7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?*

As noted in our response to questions 1 and 2, we agree that it would be beneficial to expand the auditor's report to refer to the auditor's involvement and responsibilities with respect to other public documents that are related to and contain financial statement information. This reporting would be limited to a high level statement that the other continuous disclosure documents have been read for consistency with the audited financial statements. This may help to narrow the "expectations gap" discussed in the consultation paper. However, we believe that this statement should be limited to the extent of the auditor's involvement with the other documents and would not require any other discussion with respect to these documents, as long as the information contained in those documents is consistent with the audited financial statements. It would be necessary to limit the documents covered by the auditor's report to those issued at the same time as the financial statements, as it would probably be costly and time consuming to issue a new auditor's report every time a new document is issued.

## **C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit**

*8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.*

*9. Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.*

*10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.*

We believe that the auditor's report should not include of "Emphasis of Matter" or "Other Matters" paragraphs unless the items are not appropriately accounted for and disclosed in the financial statements. We agree with the view noted in the consultation paper that readers often misinterpret these additional paragraphs to be negative (i.e. that management has not appropriately accounted for or disclosed the items) and therefore believe that including these additional paragraphs could hinder rather than help the understanding of the auditor's report. We note that for companies that must report under the Sarbanes Oxley Act, the auditor's report on internal control over financial reporting already requires the auditor to report on any significant internal control deficiencies noted.

We also do not believe that it would be beneficial for the auditor's report to include the additional information about the audit itself listed in the consultation paper, such as materiality, risk of materiality and measurement uncertainty and areas of difficulty encountered during the audit. We believe that this type of disclosure may cause further confusion for financial statement users as to whether this additional information affects the auditor's opinion.



We believe that the use of a “justification of assessments” model of reporting will necessarily include complex language and detailed descriptions of procedures that would not be understood by many of the financial statement users, and therefore cause confusion.

We do not agree with the suggested insights to be included in the auditor’s report. As noted above, the auditor’s report on internal control over financial reporting for companies that must report under the Sarbanes Oxley Act already requires the auditor to report on any significant internal control deficiencies noted during the audit. Financial statement and MD&A disclosure requirements already require disclosure and discussion of critical accounting policies, judgments and estimates, including disclosure and discussion of alternative accounting policies that could have been adopted, and the impact this would have on the financial statements. Similar to our response in question 1, there does not appear to be any additional benefit for the auditor to duplicate this discussion in the auditor’s report.

**D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit**

*11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.*

*12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?*

*13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?*

We do not believe that the model of corporate governance reporting described in the consultation paper is necessary. Many reporting jurisdictions already require similar disclosure. For example, Canadian Natural’s information circular prepared under Canadian securities law already includes reporting related to the roles and responsibilities of the audit committee. Therefore, including similar reporting requirements within the audit reporting framework would duplicate effort.

**E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit**

*14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.*

*15. What actions are necessary to influence further development of such assurance or related services?*

For companies that must report under the Sarbanes Oxley Act, the current version of the auditor’s report already includes assurance on corporate governance and internal controls over the financial reporting process, as it includes an opinion on the company’s internal controls over financial reporting. We do not believe that it is appropriate for the auditors to provide an opinion on the other examples suggested in the consultation paper.