

October 5, 2012

Mr. James Gunn  
Technical Director  
International Auditing and Assurance Standards Board

Dear Mr. Gunn:

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

Thank you for the opportunity to comment on the Invitation to Comment - Improving the Auditor's Report. I am replying on behalf of the Office of the Auditor General – Manitoba in Canada. My comments are from the perspective of the Canadian public sector within our jurisdiction.

**Specific questions posed by the IAASB:**

**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?*

Overall, some of IAASB's suggested improvements have merit but, due to impediments identified in our responses to the questions posed, we have difficulty concluding that the perceived benefits outweigh the costs.

**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?*

No we do not. The financial statements are management's responsibility and the role of the auditor is to provide an opinion on whether the financial statements are fairly presented in accordance with a fair presentation framework or prepared in accordance with a compliance framework. International accounting standards have been revised to better address the needs of investors. Accordingly, the financial statements should provide the necessary information to investors.

We support the continued use of Emphasis of Matters and Other Matters paragraphs.

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?*

We do not support the concept of Audit Commentary. However, should Audit Commentary become mandatory, we believe that there should be some required disclosure for certain matters (for example, adopting IRFS for the first time and existing ISA requirements for use of other matters or emphasis of matters disclosure) and strong guidance for other matters. If the decision on what to include in Auditor Commentary is left strictly to the auditor's professional judgement, there will be considerable inconsistency in audit reports.

On the other hand, too much requirements may lead to the creation of boiler plate responses to common matters decreasing the usefulness of Audit Commentary to readers.

We believe more specific criteria should be developed, in consultation with stakeholders, to guide reporting under Auditor Commentary.

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 the audit procedures and related results in Auditor Commentary?*

We do not support the concept of Audit Commentary. However, should Audit Commentary become mandatory, we do not believe audit procedures should be included because information on specific audit procedures would yield little useful information to investors. The report would describe an incomplete list of procedures performed which may cause the reader confusion or concern about audit procedures described or other procedures not included. The responsibilities of the auditor are already set out in the report.

We do not support conclusion on specific financial statement matters (for example, valuation of Financial Instruments). This would lead to multiple conclusions 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, the timing of financial statements and costs?*

There will likely be increased discord between the auditor and management and those charged with governance. Timing of the financial statements may increase

slightly but the cost will definitely increase especially regarding the Auditor Commentary. The auditor will need increased assurance around the matters reported.

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?*

We do not believe Audit Commentary is appropriate for any audit.

### **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 standards in IAS 570 appropriately consider the going concern assumption and what procedures the auditor has to follow. The auditor's opinion already reflects the appropriateness of the going concern assumption.

In the public sector, the going concern assumption is rarely an issue.

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

The auditor's report does not cover additional information outside the financial statements. To include comments on other information may create the incorrect assumption that the other information is audited.

In the public sector, annual reports are sometimes issued long after the audit is complete and the audit report signed. What would be the intention regarding other information disclosure in the auditor's report in this situation?

### **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 is appropriate.

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

The impact on the public sector has not been considered. In the public sector, the signature on the auditor's report depends on legislation. The term "engagement partner" is not appropriate in the public sector.

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?*

We do not have difficulty disclosing that other auditors were used in a group audit situation in general terms as long as the group auditor's overall responsibility for the audit of the financial statements is also disclosed. We would object if this disclosure was expanded to include the names of the other auditors involved in the group audit. Not only could the list be long in a large consolidation but the overall responsibility of the group auditor for the audit could be lost.

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 do not think this a good suggestion. Very few readers would go to the web site or appendix. If the information is considered useful to the reader, it should be in the auditor's report.

## **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?*

We agree with placement of the opinion at the front of the report because this is the most important aspect of the report and readers do not have to go to end of a multi-page report to find it. On the other hand, the reader may not read the remainder of the report and information deemed important.

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?*

There should be global consistency.

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?*

Yes the IAASB should mandate the ordering of items in a manner similar to what shown in the illustrative report for greater global consistency.

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 earlier, we do not believe going concern disclosures and partner signatures are appropriate for the public sector. We also believe mandatory Auditor Commentary is not appropriate.

In the event that additional disclosure becomes mandatory for publicly traded entities, this additional disclosure should not be required for small to medium sized entities or for entities in the public sector.

Yours sincerely,

Greg MacBeth, CA  
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Office of the Auditor General of Manitoba