

October 5, 2012

Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017
USA

Dear Sirs:

Re: Invitation to Comment – *Improving the Auditor’s Report*

Thank you for the opportunity to comment on the above Invitation to Comment issued by the International Auditing and Assurance Standards Board (“IAASB”). We have reviewed the Invitation to Comment (“ITC”) and have provided our comments below.

Overarching comments

We agree that there is a need to respond to the calls from users of audited financial statements for the provision of more relevant information to assist in making financial decisions in today’s global business environment and we are therefore supportive of the IAASB’s initiatives to improve auditor reporting. However, we believe that such changes should not be confined to changes to the auditor’s report and that proposed changes should involve not just auditors, but other parties to the financial reporting process as well.

We strongly encourage the IAASB to consider whether the proposed changes meet the objectives of improving the overall quality and usefulness of financial reporting for all entities, including Small and Medium-sized Enterprises (“SMEs”) and Public Interest Entities (“PIEs”). We are concerned that the proposals in the ITC are most suited to meet the needs of institutional investors and financial analysts, which are largely geared towards the analysis of larger entities listed on public exchanges. The Canadian public company market is considerably smaller than that of the European, Asian or American exchanges. Most of Canada’s largest public companies would not be considered significant entities on the global scale. In fact, the market capitalization of the Toronto Stock Exchange (“TSX”) only comprises approximately 10% of the North American markets. The users of these financial statements often have access to additional information about the entity’s financial reporting through direct contact with management and entity decision-makers and through the MD&A, press releases, quarterly reports, etc.

Distinction should be made between the needs of users of the financial statements of multi-national entities listed on public exchanges and the users of the financial statements of smaller, non-complex SMEs and other entities, such as Non-Profit Organizations and smaller governmental entities. The vast majority of Canadian companies are privately held enterprises and PIEs that would not be considered “global” companies, and do not have institutional investors and are not scrutinised by financial analysts.

Provision of the type of commentary proposed by the ITC is, therefore, not likely to add value for most users of audited financial statements in the Canadian market.

There is currently an “expectations gap” between what users of financial statements believe a financial audit comprises and the responsibilities of an auditor and we believe that this gap could be addressed more effectively through user education than through expanding the auditor’s report. We are not convinced that the auditing profession should consider itself solely, or even partly, responsible for recent business failures or the global financial crisis, nor do we believe that the proposed changes to the audit report will be successful at mitigating such future events, as these changes cannot replace the judgment and due diligence required by an investor or other stakeholder. It is clear that users still do not have an adequate understanding of the auditor’s responsibilities and we are concerned that certain of the proposed changes will serve to widen, rather than narrow, this expectations gap.

We are supportive of changes to the auditor’s report that will result in a clear and succinct document which focuses the users’ attention on certain key elements presented by management in the financial statements. Together with initiatives to enhance users’ understanding of the auditor’s responsibilities through education and the provision of information outside of the auditor’s report, we believe that the expectations gap can be narrowed.

Our responses to the questions proposed in the ITC are included below and were developed with the above overarching comments in mind.

We are pleased to offer our assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions to meet the needs of financial statement users.

MNP LLP (MNP) is one of Canada’s largest chartered accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations and municipalities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

Jody MacKenzie

Jody MacKenzie, CA
Vice President, Assurance Professional Standards

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 the possible impediments (including costs)? Why or why not?

Overall, we do not believe that the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report. Given the current "expectations gap" between users of financial statements and auditors, the introduction of many subjective features to the auditor's report may serve to only widen this gap. The inclusion of Auditor Commentary on what the auditor believes is most important to users and auditor comments on going concern could create the misconception that the financial statements are the responsibility of the auditor, not management. Furthermore, the proposed inclusion of Auditor Commentary on areas of significant judgment, significant or unusual transactions, matters of audit significance, difficult or contentious matters noted during the audit and other issues of significance related to the audit scope or strategy will not be useful information to a user who will not have access to the same background information used by the auditor to reach conclusions regarding these matters. Similarly, without the benefit of audit training and experience, a user is unlikely to have the understanding of fundamental audit concepts and methodology necessary to be able to draw appropriate conclusions regarding statements made about audit strategy, especially without the context of audit procedures performed and the results thereof. If the proposals are adopted, there is a risk that the auditor's report will become very lengthy and complex without providing any additional value to the users of the financial statements.

The addition of lengthy Auditor Commentary may also induce over-reliance on the auditor's report. The auditor's report should provide information to users so that the financial statements can be one source of reliable information on which to base investment decisions, but it should not replace the judgment of the user or the role of management and Those Charged with Governance ("TCWG") in being the primary source of financial information.

We agree that, given the current misconceptions about the purpose of an audit and the auditor's responsibilities, changes need to be made. However, we recommend that consideration first be given to changes to areas other than the auditor's report, such as regulation, current financial reporting standards or International Standards on Auditing ("the ISAs"). In our view, the auditing profession should not consider itself solely, or even partly, responsible for the global financial crisis and therefore, only changing the auditor's report is unlikely to prevent similar future events.

Different users will have different information needs and requirements; it will be very difficult for the auditor to anticipate and address all these different needs in the auditor's report. We believe it may be beneficial to consider what information would provide value to users when making investment decisions and determine whether such information should form part of financial reporting requirements on which the auditor can then report. This approach is different from a situation where the auditor must decide what is important to a user. If, for example, information pertaining to the liquidity risk of a financial institution is important to a user, management should specifically be required to report on liquidity ratios in excess of a certain percentage.

When this trigger, and other related factors are present, auditing standards could require that the auditor draw attention to the fact that management has reported these figures by way of Emphasis of Matter (“EOM”) paragraphs.

Further, we believe that requiring the auditor to make statements concerning going concern when management is not required to do so could have far-reaching negative consequences. The impact of this may not be as significant when restricted to a “negative” statement in the auditor’s report of a SME but may have far-reaching consequences when reported in the auditor’s report of a bank considering the systemic risk.

- 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.**

The expanded use of EOM paragraphs can be considered by the IAASB. The use of these paragraphs should not be left to the judgment of the auditor; rather the scope of when an EOM paragraph is required should be expanded. These requirements would first be incorporated into financial reporting standards and ISAs thereby ensuring that items become reportable by management with the auditor drawing the users’ attention to matters that have already been reported. This will assist in ensuring the integrity of the current roles of management, TCWG and the auditor.

Consideration should also be given to educating analysts, investors and other users as to the exact roles and responsibilities of management, TCWG and the auditor. We believe that if these roles are clarified, it will assist in reducing the current expectations gap and help ensure that financial information is viewed in the correct context. This information can be made available through company and regulatory websites as it is not the auditor’s responsibility to educate users of financial statements. There may also be a benefit to providing educational opportunities and materials in the public domain that explain, in layman’s terms, the concepts and methodology of an audit to an extent that will help reduce the expectations gap.

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 believe that the concept of Auditor Commentary is an appropriate response. According to the ITC, the overarching objective of the new Auditor Commentary section is to provide transparency about matters that are, in the auditor’s judgment, likely to be most important to users’ understanding of the audited financial statements or the audit. This objective is, however, contrary to the fundamental objective of an audit which is to evaluate, rather than generate, information that the entity provides to its investors. We have significant concerns that the proposed Auditor’s Commentary will incorporate a great deal of subjectivity into the auditor’s report, as it will include the auditor’s view of what is important information for the user, when it is our view that the auditor’s report should remain objective. In order for the auditor to remain objective, his role should be limited to expressing an opinion on the financial information provided by the entity.

The strength of an audit lies in its ability to provide an independent third party attestation. Requiring the auditor to express his views and analysis of the financial information presented by management will blur the responsibilities of auditors, TCWG and management, and create more, rather than less, confusion for the user. Expanded commentary on areas of significant judgment, significant or unusual transactions, matters of audit significance, difficult or contentious matters noted during the audit, and other issues of significance related to the audit scope or strategy is susceptible to misinterpretation and misunderstanding. These matters are usually the subject of robust dialogue between auditors, management and audit committees, to which the public is not privy. Including Auditor Commentary without the ability to engage in a robust two-way communication will not enhance an investor's overall understanding of the financial statements; in fact, there is a real danger that the additional Commentary may be misunderstood and taken out of context by users at large. Expanded descriptions of the auditor's communications with management and TCWG would also bear the risk of being misunderstood or insufficient to add value for users. Users may also incorrectly assume that the inclusion of specific accounts or disclosures in the Auditor Commentary provides assurance on those particular accounts and disclosures and may rely on the Commentary as a substitute for reading the financial statements as a whole.

If the proposals for the Auditor's Commentary are adopted, guidance must be provided as to what matters should be considered for inclusion, considering the circumstances of each individual engagement would be different. The result will be considerably different auditors' reports being issued and a lack of comparability, even among entities within the same industry.

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?

If Auditor Commentary becomes a requirement, the matters to be addressed would have to be left to the judgment of the auditor as the matters upon which an auditor would report and the related content would vary based on the facts and circumstances of each individual engagement. However, one of the potential consequences of leaving the inclusion of matters in the Auditor Commentary to the auditor's judgment is that it may not address the needs of all the users. It will be very difficult to anticipate what will be important to all users and therefore the Auditor Commentary will either not meet certain users' expectations or it will be very lengthy, a feature that will in all likelihood reduce the effectiveness of the communication and defeat the purpose for including it in the first place. Mandating the content of the Auditor Commentary will most likely lead to this section of the auditor's report becoming standardized over time, which will then reduce its relevance to many users.

While we agree that the auditor must be able to use discretion in determining the content of the proposed Auditor's Commentary, we also strongly believe that, if the Commentary becomes a requirement, guidance must be provided in the standards such that the auditor has a framework within which their professional judgment can be applied.

This guidance should assist the auditor in deciding which items to include in the Auditor Commentary, without mandating items that may not be applicable to all entities. It will allow the auditor to be more flexible in addressing what is relevant to the entity, while still maintaining some consistency in what is reported.

There is a risk that, over time, adherence to such guidance may result in somewhat standardized content; however, we believe that this situation is preferable to one in which the auditor, in applying his discretion, either provides no Commentary, or provides so much that the Auditor's Commentary is essentially another version of the notes to the financial statements.

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 illustrative examples relating to Outstanding Litigation and Goodwill appear to be references to information that is already contained within either the notes to the financial statements or the management commentary on the financial statements. Therefore, it does not appear to add additional informational or decision-making value. It could be argued that highlighting where the information could be found in the financial statements may be useful to users; however they could also find this information by either reading the management commentary or the accounting policy notes pertaining to sources of estimation uncertainty and management judgment. Our concern is that users will inappropriately rely on the Auditor Commentary as a reference point for all important matters and not read the financial statements and notes.

With respect to the illustrative example on the Valuation of Financial Instruments, we do not believe that the provision of similar information would be valuable to users. It may create confusion if the user does not understand basic auditing principles (and also the particular audit firm's methodology) as they may not understand the concept of accepting an outcome that falls within a pre-defined range. Furthermore, this information is provided without any context – for example, there is no information pertaining to the size of the range and what materiality level was applied or how close the estimate was to being outside of the pre-defined range. However, we do not believe that the solution to this is to include quantitative measures such as materiality to provide context, as then this would require further disclosure regarding how materiality and ranges were developed. This would make the Auditor Commentary too long and complex, thereby significantly reducing its effectiveness.

Including commentary on audit strategy is not useful to users, as information of this nature pertains to subjective judgments made by the auditor. In addition, for information about audit strategy to be useful, it would also need to include information about the audit procedures performed and results thereof, to address the risks identified. We do not believe that the Auditor Commentary should include such detail, as the inclusion of such information is at the auditor's discretion and may not be understood by all users.

As there is no common audit methodology used by all audit firms, and each firm may apply different procedures to come to the same conclusion, the information about audit procedures is not likely to be useful to most users of the reports. A description of audit procedures and related results is only likely to be useful if made in the context of other quantitative information such as materiality, thresholds, the audit approach (substantive vs. combined), errors identified, etc., all of which are specific to the individual audit firm. There is a risk that the user will make judgments about the sufficiency and appropriateness of quantitative factors without training or evaluative criteria.

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 TCWG, the timing of financial statements, and costs?

The inclusion of Auditor Commentary in the report requires the auditor to make decisions about which information would be relevant to the user and therefore introduces a subjective element to the auditor's report. This is contrary to the intent of auditor reporting, which is to attest to information provided by management. There is some risk that a user of the financial statements may give greater credence to the auditor's views than to the information presented by management and authorized by TCWG, even though the auditor is not as intimately familiar with the entity, its operations, and the business environment. The lines between the responsibilities of the auditor, the audit committee or TCWG, and management will be blurred. Management and TCWG are responsible for financial reporting and the provision thereof, whereas the auditor provides assurance over the information provided. The auditor should not appear to be representing the position of management or TCWG.

Inclusion of the Auditor Commentary may involve considerable back-and-forth discussion between the auditor and the Audit Committee. Further, it is possible that each of the auditor's, and the Audit Committees', legal counsel will be involved, to assist in reaching agreement on the wording of the Auditor Commentary. Legal counsel may require inclusion of numerous caveats and qualifying statements as to make the Auditor Commentary difficult to read and interpret.

In addition, we believe there is a risk that inclusion of Auditor Commentary on certain matters raised with management and the Audit Committee in regard to alternative methods of reporting may be viewed by securities regulators and other users of the financial statements as, essentially, a "soft qualification."

We believe that funds necessary to pay these additional costs for mandatory Auditor Commentary could be used more effectively on education initiatives aimed at investors and other users of financial statements. Entities and users need to understand that the inclusion of commentary would require significant involvement from senior audit engagement personnel, including engagement quality control reviewers. Additional Commentary not only results in increased costs but will require additional time on already tight reporting deadlines, which could ultimately affect the timely release of financial reports and information.

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 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?**

If the inclusion of Auditor Commentary is left to the discretion of the auditor, it is likely that this Commentary will not be included for many entities. However, mandating the inclusion of Auditor Commentary for all audits will result in a situation where this information will not be useful to all users, especially for certain smaller listed entities, private entities, and most not-for-profit and governmental organizations. Their investors, shareholders and other stakeholders generally have access to the types of information proposed for disclosure in the Auditor Commentary. As noted previously, we do not agree with the proposal to include Auditor Commentary in any auditors' reports; however, if this proposal is accepted, then we would recommend that the Auditor Commentary only be mandated for entities listed on a public exchange that meet certain defined size criteria, for example greater than \$X in market capitalization, assets and/or revenues, as the definition of PIEs would vary across jurisdictions. We strongly believe that the proposed Auditor Commentary will not be relevant or useful for all PIEs, especially within the Canadian environment.

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?**

We agree that the going concern assumption in financial statements is a critical financial reporting and auditing issue. In addition, financial statement users sometimes lack an understanding of the auditor's responsibilities relating to management's use of the going concern assumption in the preparation of the financial statements. However, we do not agree that an affirmative statement regarding going concern in the auditor's report is an appropriate way to address user's lack of understanding of the auditor's responsibilities in this regard. Nor do we believe that an affirmative statement on going concern is an appropriate response to concerns raised about the auditor's role in reporting liquidity risks. Any affirmative going concern statement could be misinterpreted by readers and they may rely on the auditor's report rather than doing their own due diligence with respect to a matter that relies so much upon judgment. Statements regarding going concern are inherently forward-looking; however, the auditor would be making such a statement in their report without reference to legal caveats and other limitations similar to those explicitly described by management in their Management Discussion and Analysis ("MD&A"). We do not believe it to be within the auditor's scope to make statements concerning the future financial performance of an entity as it is not the responsibility of the auditor to attest to individual items, but rather to the financial statements as a whole.

We are concerned that a statement by the auditor stating that “management’s use of the going concern assumption is appropriate and that no material uncertainties have been identified with respect to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern” will diminish the effectiveness of going concern reporting when management’s use of the going concern assumption is not appropriate or where material uncertainties have been identified. If every auditor’s report includes a statement on going concern which in almost all cases will be an affirmative statement, it may, in effect, achieve the opposite of what the IAASB intended, in that users will not notice when material uncertainties with respect to going concern exist.

We believe that there will be considerable practical difficulty in wording “going concern” disclosure for different types of entities. For example, what would the going concern commentary for a public sector entity look like? When might a government not be considered a going concern?

Similarly, there is risk that Auditor Commentary suggesting that a bank or financial institution may not be a going concern is almost certainly going to result in a “run” on the bank, and therefore be a self-fulfilling prophecy. Lastly, how would going concern disclosure for an entity in the development or exploratory stage be worded, as these entities are, by definition, not yet self-sustaining? Would it be different than the disclosure required for more mature entities? Guidance as to appropriate wording of the required disclosure would likely be necessary. Over time, there is a risk that this disclosure will become standardized and therefore not useful to understanding the financial statements.

Instead of including affirmative going concern reporting, we propose that the IAASB continue to deliberate on how users can be educated on the auditor’s responsibilities with respect to management’s use of the going concern assumption. As suggested in the ITC, users could be directed to a website which would highlight the key requirements from CAS 570 *Going Concern* and those requirements relevant to the financial reporting framework.

Concerns that auditors are not appropriately reporting on going concern issues can be addressed through the inclusion of additional guidance and requirements in CAS 570, for example, key indicators of material uncertainties in specific industries. The guidance and requirements can focus on items that, in the wake of the financial crisis, users may want the auditor to specifically evaluate.

We support the current requirements on the reporting of going concern in the auditor’s report as contained in CAS 570 paragraphs 18 – 20. These requirements, which exist even if the financial reporting framework used in the preparation of the financial statements does not give an explicit requirement for management to assess going concern, give reporting any going concern issues the necessary importance by highlighting issues instead of providing boilerplate disclosure that unnecessarily lengthen the auditor’s report.

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?

Determining whether a material uncertainty exists requires significant judgment by management and the auditor because it involves considering an entity's future viability and making forward looking statements. Any explanation by the auditor on the judgments and processes to support the auditor's statements, that no material uncertainties have been identified, will likely involve a discussion on the conditions and events that cast significant doubt upon the entity's ability to continue as a going concern and why, in light of these events and conditions, in the auditor's judgment a material uncertainty does not exist. Reporting on such information exposes the auditor to significant risk. Such wording may take a significant amount of time to draft and finalize due to its sensitivity. In addition, it may give management a bias to not disclose information, relevant to the entity's going concern, to the auditor.

In accordance with International Financial Reporting Standards ("IFRS"), unless a material uncertainty exists, management is not required to disclose any events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. Adoption of the proposals means that the auditor may have to provide disclosure in the auditor's report that management is not required to provide in the financial statements. This would require auditors to be equipped with the necessary knowledge and skills to express an opinion on future events as currently the auditor's perspective is not forward-looking.

Any such information disclosed by the auditor may reflect poorly on, and prohibit investment in, the entity, which could have the unintended consequence of causing additional going concern issues. Since the information pertaining to events or conditions that cast significant doubt would have been provided by the auditor, instead of management, any negative consequences may appear to have been directly caused by the auditor's reporting and the entity may seek compensation for financial loss.

It is unreasonable to expect the auditor to report on these items if management does not report on them, especially without the significant legal caveats included in a MD&A. It is not the auditor's responsibility to create information for the marketplace. Management may take actions contrary to those reflected in the future plans for improving the entity's going concern situation as provided to the auditor.

Due to the significant judgment involved, reporting may also vary greatly from audit firm to audit firm. Although an audit firm may be justified in the reporting provided they may, to their detriment, gain a reputation as being either overly conservative or aggressive since not all the relevant facts that were evaluated are apparent to the public. Subsequent to a change in audit firms, there may be a strong tendency for the new auditor to apply 20-20 hindsight relative to previous reports. Documenting the facts of a point in time for a forward looking point of view will be difficult and will change with new information.

If additional auditor reporting is required in respect of this item, the disclosure should first be required by management in respect of the relevant financial reporting framework so that the auditor's report can refer to the relevant disclosure. In addition, the guidance in CAS 570 should be expanded, especially to provide examples of situations where it is appropriate to conclude that a material uncertainty does not exist although there are events and conditions that cast doubt on an entity's ability to continue as a going concern. Many users, auditors, and clients may interpret the fact that there are such significant events and conditions as indicating that a material uncertainty does exist and accordingly, they may question why CAS 570 and the financial reporting framework distinguish between material uncertainties and the existence of events and conditions that cast significant doubt on an entity's ability to continue as a going concern. Any reporting on this item to be included in the financial reporting framework should focus on the disclosure of events and conditions that cast significant doubt on the entity's ability to continue as a going concern and how management plans to address these events and conditions. This will reduce the subjectivity of the disclosures.

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

We have previously expressed our views with respect to unnecessarily lengthening the auditor's report with items intended to reduce the expectations gap. This item contributes to this overall concern. In addition, identifying material inconsistencies between other information and the financial statements may involve judgment and expose the auditor to additional risk.

Including the suggested statement may cause practical difficulties with respect to management's finalizing of the other information and dating the auditor's report as all the other information may not be ready at the same time. In jurisdictions such as Canada, where certain other information is not required to be filed until after the completion of the financial statements, requiring the auditor to include in the auditor's report a statement in relation to this other information is likely to create significant practical difficulties.

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?

We agree that there is an "expectations gap" between what users expect from the auditor and the financial statement audit, and the reality of what an audit involves. Accordingly, we agree with the concept of enhancing the descriptions of the responsibilities of management, TCWG, and the auditor. However, we do not believe that the enhanced description as provided in the illustrative report would help bridge this expectations gap. It does not provide more insight as to what an audit actually entails and furthermore does not address what does not fall within the scope of an audit or an auditor's responsibilities. As perception about what an audit actually entails is often incorrect, providing clarification as to what an auditor is not responsible for could provide more value than simply stating the meaning of "reasonable assurance".

However, the inclusion of a longer description of auditor's responsibilities, together with enhanced descriptions of the responsibilities of management and TCWG, will make the auditor's report very lengthy. The content will also become largely standardized over time and therefore, without users really understanding what an audit entails, it will not add much value. If the proposals to place the opinion first in the auditor's report are accepted, there is also the risk that users will not look further than the opinion paragraph and if the auditor's report is already lengthy, inclusion of additional information describing the audit procedures and responsibilities may not actually be useful to a user of the overall financial statements.

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

This proposal has been put forth to support the stated objective of making the auditor's report and the audit process more transparent; however, it is unclear how disclosing the name of the particular engagement partner will achieve this objective. When an entity engages an auditor, it engages an audit firm and not an individual audit partner and therefore the opinion provided on the entity's financial statements is that of the firm and not the individual partner. This fact is particularly evident in that the audit evidence obtained to support the financial statement opinion is gathered by a team of individuals and not just the engagement partner. Although the engagement partner is ultimately responsible for the engagement, the policies and procedures followed by the engagement partner are developed and implemented by the firm and are overseen by regulatory bodies that regularly assess the authority of the firm to provide audit services. On a complex audit engagement there could be multiple audit partners involved in a file. Certain of these partners could be specialized in particular areas of the engagement, and particular partners could be responsible for significant and material components of the audit in various subsidiaries or geographic jurisdictions. It is the firm issuing the audit opinion, as opposed to the one overall partner, that is responsible for the ultimate opinion. Therefore disclosing the name of the engagement partner potentially diminishes the responsibility of the firm, while increasing the personal liability of the engagement partner. It is difficult to see what value this adds to increasing the transparency of an audit.

From a practical perspective, disclosing the name of the engagement partner can expose that partner to privacy concerns and perhaps even to safety issues, including bearing the wrath of a disgruntled shareholder or employee. With the availability of information on the internet and through social media, accessing personal information about engagement partners will not be difficult and could result in many unintended negative consequences. All engagement partners are bound by their firm's code of conduct as well as the Codes of Professional Conduct in their jurisdictions and abiding by these would already provide each partner with a sense of personal accountability. However, this personal accountability should be to the firm's leadership and not in the public realm where consequences are not regulated.

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 the Auditor Commentary?

There is little value in including the suggested disclosure regarding the involvement of other auditors. A group auditor is solely responsible for the auditor's report on the group financial statements and the involvement of other auditors does not diminish this responsibility. This position also holds true for non-group audits where other auditors are used to perform specific procedures for the audit engagement. Therefore the disclosure of the involvement of other auditors will not add any value to users as the opinion provided on the financial statements is that of the audit firm engaged to provide the opinion and not any other auditors. If the involvement of other auditors was disclosed, users would most likely not be able to make an evaluation of the effect that this involvement had on the audit. In order for users to properly make an assessment of the impact of the involvement of other auditors, they would need to understand the scope of the other auditors' work, the results of their audit procedures, the extent of review performed by the group engagement team and the conclusion made by the group engagement team regarding the sufficiency of the work performed, in addition to the competence and qualifications of the secondary auditor. If the work performed by the secondary auditor was not sufficient, users would also then need to understand what additional procedures were performed. The disclosure of this information would most likely include the risks audited by the other auditors and how these risks were addressed. Even if all this information was disclosed, it would still not be made in the context of all the other aspects of the audit, such as component materiality, errors identified and the interaction of the components with the rest of the group.

Therefore, a stand-alone statement that other auditors were involved provides little value to users and does not increase the transparency of the audit. It may lead to users making incorrect assumptions about the other auditors involved, particularly without the context of the audit procedures performed to facilitate reliance by the group auditor. Users may also form incorrect conclusions about the competence of other auditors based solely on the names of firms provided and what research they can perform on these auditors and importantly, the jurisdictions within which they operate. The cost of providing the context for the conclusions also outweighs the benefit in that the responsibility for the opinion and the conclusions reached in forming that opinion still remain with the firm engaged to perform the audit.

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?

Given our views that enhancing the descriptions of the responsibilities of the auditor, TCWG and management could result in the auditor's report becoming too lengthy, we support having this information included in an appendix to the auditor's report. We are less supportive of the idea of relocating this information to a website of the appropriate authority, as we believe that this additional step will make the process more cumbersome for most users of the financial statements.

If this information is relocated, we suggest that the responsibilities be expanded in sufficient detail to allow users to fully understand what a financial statement audit entails and the responsibilities of an auditor. The current reference to the responsibilities of the auditor, TCWG and management should still be included in the auditor's report with details of where to access the expanded guidance. However, as previously noted, we support providing training and educational materials, including materials describing the process and objectives of the audit, and the various responsibilities of the auditor, management and TCWG, on websites of those with appropriate and relevant authority.

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?

Re-ordering the auditor's report and placing the auditor's opinion at the top of the report may serve to emphasize the importance of the opinion to the users of the financial statements. However, we believe that the opinion, to be most valuable to the user, needs the context and understanding gained by reading the other relevant information described in the report. If all the sections of the auditor's report contain appropriate headings, as they currently do, then investors and other users should not find it difficult to identify the auditor's opinion and any other sections. We recommend that the IAASB consider whether the placement of the auditor's opinion would diminish the importance of the rest of the report. We also believe that the suggested placement of the responsibilities of management and the auditor at the end of the report could create the impression that these are incidental to the audit and not essential to providing the context in which the audit was performed. It may therefore be appropriate to have the responsibilities of management and the auditor (whether enhanced or not and whether included in the auditor's report or an appendix thereto) preface the auditor's opinion to provide that necessary context. Placing the auditor's opinion up front, followed by commentary on what the auditor believes to be important to users and the auditor's comments on going concern, could also create the impression that the financial statements are the responsibility of the auditor and not management. In addition, the current proposed inclusion of the section pertaining to "Other Information" ahead of the responsibilities section breaks the flow of the "audit section" and should rather be included at the end of the auditor's report if required.

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 believe that global consistency in auditors' reports will enable investors and other users to identify an audit that has been performed in terms of the ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, however we believe that this global consistency is necessary for global (i.e. multi-jurisdictional, or domestic with global investors) entities only.

- 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 audit report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices?**

We have some concerns over moving the opinion to the top of the report; however, we would otherwise support the mandating of the order in which items appear in the auditor's report, unless law or regulation requires otherwise. We do not believe that mandating the order of items will restrict the flexibility of national reporting requirements or practices like mandating the content of the auditor's report would.

- 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?**

We feel very strongly that the proposals are not appropriate for entities of all sizes in both the public and private sectors.

As noted previously, we believe these proposals are likely only appropriate for larger, multi-jurisdictional entities with significant numbers of diverse users including analysts and institutional investors. The IAASB should take into account that users of the financial statements of smaller, Canadian venture issuers are already presented with large volumes of information through the MD&A, press releases, quarterly reports, etc. that are available in addition to financial statements and reports. They, and the users of SME and private entity financial statements, are most often lenders and investors, who also generally have access to additional information through personal contact with the CEO and/or CFO of the entity, and sometimes through the entity's "investor relations" department. The operations of these entities are generally not complex and the provision of more information through a lengthy auditor's report would not be of value to users. In addition, these entities are not generally followed by analysts and do not have institutional investors. Similarly, the users of public sector entity financial statements normally have access to additional information about the entity's plans and operations through government websites, the media, and the like.

The IAASB should therefore consider making a distinction between the needs of users of the financial statements of multi-national entities listed on public exchanges and the users of the financial statements of smaller, non-complex SMEs and other entities when drafting standards proposals. The costs of ensuring compliance with these proposals are likely to outweigh any benefits that might accrue to the users of the SME and other entity financial statements.