



Office of the Auditor General of Ontario  
Bureau du vérificateur général de l'Ontario

November 26, 2013

Mr. James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

Dear Mr. Gunn:

Re: EXPOSURE DRAFT - REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED  
NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING – July 2013

Thank you for providing us with the opportunity to comment on EXPOSURE DRAFT -  
REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED  
INTERNATIONAL STANDARDS ON AUDITING.

Our Office supports the IAASB's initiative to make auditor reporting more informative to users of financial statements. However, it is our fundamental belief that any changes to the auditor's report must recognize users' need for reporting that is clear, concise, relevant and readily understood.

In the context of the public sector, the auditor's report must address the needs of its primary users: taxpayers and their elected representatives. This means that it is imperative that the auditor's report use terminology and concepts that can be readily understood by the general public. The auditor's report should also provide information that is relevant to these users. The inclusion of information that may benefit a relatively small, sophisticated group should not be done at the expense of the vast majority of users if the latter find the additional information incomprehensible or irrelevant. We have responded to the questions in the exposure draft with this in mind for public sector reporting.

### Responses to Requests for Specific Comments

Our responses to the matters on which you specifically requested comments are set out below.

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### Question 1

**Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?**

Proposed ISA 701 (revised) states that the proposed key audit matters section would describe the areas that are significant to user's understanding of the financial statements, such as areas of significant risk, and its effect on the audit.

We question the value added by this section for the public sector. The description of areas of significant risk would appear to us to essentially repeat information that would or should be readily available in the notes to the financial statements, such as disclosures about key judgments and areas of estimation uncertainty. It is management's responsibility to adequately address these areas in the financial statements. We also found the detailed description of audit procedures too technical for most individuals outside of the accounting profession to use to their advantage.

As stated above, it is our belief that the auditor's report should communicate key information to users in a way that is clear, concise and readily understandable. The introduction of the proposed key audit matters section would add considerable length to the auditor's report for a questionable increase in the value of the auditor's report. While the intent of the proposals in the Exposure Draft is, in part, to address the expectation gap between the auditor's actual duties and responsibilities and the user's expectations of them, we believe that the introduction of a key audit matters section will not alleviate this concern and may in fact worsen the expectations gap.

### Question 2

**Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?**

See response to Question 1.

### **Question 3**

**Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?**

See response to Question 1.

### **Question 4**

**Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.**

See response to Question 1.

### **Question 5**

**Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?**

See response to Question 1.

We do not support the use of choice in this matter. Under this proposal, two entities with identical risks and controls may have significantly different auditor's reports, depending on the individual auditor's inclination. Users may receive the mistaken impression that the inclusion of a key audit matters section is indicative of an entity with significantly higher risks compared to an entity where the auditor chose not to provide such disclosure. Ultimately, this could lead to a lack of comparability between entities, thus potentially undermining one of the essential goals of standardization.

**Question 6**

**Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?**

**(a) If so, do respondents agree with the proposed requirements addressing such circumstances?**

**(b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgment, that there are no key audit matters to communicate?**

See response to Question 5.

**Question 7**

**Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?**

See response to Question 1.

For statements, other than public sector statements, we agree with the proposal that communication of key audit matters should be limited to the audit of the most recent financial period for practicality considerations. However, we would like to propose an exception to this rule: in the event that a significant issue was highlighted in the prior period auditor's report (e.g. a going concern issue, a potential merger, etc.) and the issue was resolved in the current year and the notes to the financial statements do not provide adequate disclosure as to how these matters were resolved, the auditor should have the option to disclose the details in the key audit matters sections rather than have users potentially confused by its absence.

### **Question 8**

**Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?**

See response to Question 1.

We are concerned that inclusion of both a key audit matters section and an Emphasis of Matters paragraph would be confusing to financial statement users. There is presently nothing in their respective titles that would distinguish the two sections or that would guide the user on which is the most important for consideration. We see little difference in the scope of the Emphasis of Matter paragraph and the key audit matters section. The definition an Emphasis of Matter in the proposed ISA 706 (revised) is "a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements". This definition does not appear to be significantly different from the definition of key audit matters as "those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period". Indeed, paragraph A2 of proposed ISA 706 (revised) acknowledges that it would be rare to have circumstances that would require both an Emphasis of Matters paragraph and a key audit matters section.

### **Question 9**

**Do respondents agree with the statements included in the illustrative auditor's reports relating to:**

**(a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?**

**(b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?**

**In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.**

*Question 9(a)*

ISA 570 (revised) proposes that the auditor include a statement that management's use of the going concern basis of accounting is appropriate in the absence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. We believe that this statement may not be appropriate in the context of financial statements in the public sector. The going concern concept is significantly less relevant in the public sector than in private sector because of the long-term nature of many public sector programs and the very broad tax-raising powers of national and provincial governments. We recommend that the auditor's report only address management's use of the going concern basis of accounting on an exception basis in the public sector.

Further, the use of the phrase "going concern basis of accounting" may be confusing to users of public sector financial statements, since going concern is not the basis of accounting that the auditor is opining on, such as IFRS or IPSAS. Rather, the going concern concept is an assumption that, once proven inappropriate, would lead to a "liquidation" basis of accounting.

*Question 9(b)*

ISA 570 (Revised) provides an illustration of a going concern paragraph where material uncertainty exists but the going concern basis of accounting is still appropriate. The text of the illustration states that a material uncertainty exists and that the going concern basis of accounting is appropriate, but does not provide an explanation to users as to why the going concern basis is still considered appropriate in light of the material uncertainty. We propose that the auditor's report should describe the mitigating factors that led the auditor to believe that the going concern basis of accounting is still appropriate.

**Question 10**

**What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?**

As stated above, we believe that going concern issues generally have limited applicability in the public sector. Therefore, the inclusion of this statement in every auditor's report, regardless of the existence of a material uncertainty, would be unnecessary in a public sector context.

**Question 11**

**What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?**

We believe that this statement is unnecessary given that auditors must adhere to professional standards.

**Question 12**

**What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?**

We have no concerns with this proposal.

In the public sector, Auditor Generals sign the opinion for the Consolidated Financial Statements as required under provincial and federal legislation.

**Question 13**

**What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?**

We support the changes described in paragraph 102 of the Exposure Draft.

**Question 14**

**What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?**

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We are concerned that too much latitude in the ordering of the sections within the auditor's report will lead to lack of comparability between auditor's reports and may cause confusion to users. The current model for auditor reporting allows users to easily locate the information they need in part because the current auditor's report is concise and in part because a standard format is used. In contrast, in the illustrative models provided in the proposals, an auditor's report can span over four pages.

Thank you for the opportunity to comment.

Yours truly,



Bonnie Lysyk  
Auditor General of Ontario

cc: Mr. Greg Shields, CPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board