



November 20, 2013

International Auditing and Assurance Standards Board

Via website posting: [www.iaasb.org](http://www.iaasb.org)

**Re: Reporting on Audited Financial Statements: Proposed New and Revised Internal Standards on Auditing (ISAs) (July 2013)**

Dear Sir/Madam:

We appreciate the IAASB's proactive efforts to improve the auditor's report for the financial statement audit. We recognize that recent international financial crises have highlighted the ongoing expectation gap between what is expected from auditors and what is provided by the financial statement audit and the resulting auditor's report.

Our responses to the specific questions raised by IAASB are below.

1. We agree that the inclusion of the introduction of a "key audit matters" section in the auditor's report on financial statements may enhance the usefulness of the auditor's report in that it provides users with some of the additional information they seem to expect from auditors of financial statements. Based on our above comments, we agree with limiting this requirement to listed entities.

However, as previously identified (e.g., in IAASB's deliberations about amendments to ISA260 Communications to Those Charged with Governance), the definition of "listed entities" is challenging to apply in that it does not conform well to definitions in Canadian laws and regulations. While we do not expect the IAASB to tailor definitions to align with laws and regulations of individual jurisdictions, we encourage it to consider whether its definition is including entities for which it does not intend. For example, for the public sector, it unclear whether the definition is meant to capture governments whose debt (debentures) is listed on exchanges. Also in Canada, numerous companies will likely fall within this definition- many of these companies are quite small. We encourage IAASB to consider providing additional guidance to assist in the application of the definition.

2. We support the selection of the "key audit matters" from matters communicated to those charged with governance in that this should foster reasonably consistent auditor judgments about what matters are considered as key audit matters. Also, this supports the importance of effective two-way communication contemplated in ISA260. However, while in practice most auditors may communicate key audit matters in writing to those charged with governance in a form other than the audit report, we note that neither the proposed ISA701 nor ISA260 require written communication of the "account areas of significant auditor attention" listed in the proposed ISA701.8. We ask the IAASB to consider requiring written communication of these matters for the same reasons it requires written communication for significant audit findings (ISA260.19) and auditor independence (ISA260.20).
3. We agree that the proposed requirements and related application material in proposed ISA 701 provide sufficient direction regarding descriptions of individual key audit matters. However, although clearly stated in the proposed ISA701.9(d) and in turn in the proposed audit report, we are concerned that users of the financial statements will likely interpret the report as expressing opinions on the individual matters set out in the audit report.

4. In general, we found the examples of key audit matters included in the illustrative examples in proposed ISA 700 to be informative as these reflect key areas of risk where the auditor typically needs to exercise significant professional judgment.
5. We agree, with the following exception, that key audit matters may be communicated on a voluntary basis for entities for which the auditor is not required to do so. While we appreciate the importance of the auditor agreeing with the terms of the audit engagement with management or those charged with governance and the importance of communicating the expected form and content of the report, we are concerned about the appropriateness of seeking management's or those charged with governance's agreement over the content of the audit report with respect to the auditor's decision as to whether to include "key audit matters". We think this decision should be left to the professional judgement of the auditor and that the ISA should not allow management or those charged with governance to restrict the auditor from choosing to provide this information.
6. We find it is appropriate for the proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate. This is particularly suitable given the above concerns with respect to the current definition of listed entities. The proposed requirements appropriately address such circumstances.
7. We disagree 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 when the audit report applies to the comparative financial information presented. While we recognize the additional complexity this adds, we note that the concept of the key audit matters applies equally to all periods within the scope of the audit. We find that limiting the key audit matters to only the current period may cause users of the audit report to not recognize that the audit report extends to other periods referred to within the report.
8. We agree with IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs even where the auditor is required to communicate key audit matters. The concepts have been appropriately differentiated in the proposed ISAs.
9. (a) While we agree with that there is value in inclusion of going concern statements in auditor's reports for private sector entities, we continue to question the value of this requirement for all public sector entities. Also, the wording of the proposed ISA570.20(a) seems to assume the applicable financial reporting frameworks include provisions on the going concern basis of accounting. Proposed application material is silent with respect to situations where the financial reporting framework does not include explicit requirements for accounting for going concerns (e.g., financial reporting frameworks applicable to public sector entities). Furthermore, we note that the explanatory memorandum is silent with respect to IAASB's liaison with accounting standard setters for the public sector. As such, we are uncertain if IAASB has discussed this area with public sector standard setters and suggest that at least in the interim, IAASB consider providing an exception-based reporting requirement for including going-concern statements on audit reports related to public sector entities.

Also, we question the suitability of the wording in the illustrative auditor's reports with respect to public sector entities in that the decision to "liquidate the Company or cease operations" often does not rest with the management of the entity but rather can only occur as a result of changes to laws and regulations.



- (b) While we find the illustrative auditor's report workable for private sector entities with respect to measurement uncertainty, for reasons expressed above, we question the validity and value of this information for public sector entities.
10. Where these matters are included within auditor reports, we agree that the auditor's report should include an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern.
11. We question whether users of the auditor report on the financial statements will find much value in the explicit disclosure of the source(s) of independence and other ethical requirements within in the audit report. Users are more likely interested in the auditor clearly declaring their independence from the entity and compliance with those requirements.
12. We have no concerns with the proposed requirement to have the auditor report signed by an individual and we support that this requirement be limited to listed entities. However, for public sector auditors who are responsible for auditing entities that could be considered listed entities (see comments under response #1 above), requiring the "engagement partner" to sign the auditor's report instead of the "auditor general" of the relevant legislative office may be inconsistent with legislative requirements. We suggest IAASB consider providing separate guidance recognizing that law or regulation may require individuals other than the engagement partner to sign the audit report.
13. We agree allowing the auditor to refer to a website in place of providing a description of the auditor's responsibilities in the auditor's report as long as it is restricted to a website of an appropriate authority as defined in proposed ISA700.A41. The appropriateness of a reference to a website may need to be rethought if a significant change in auditor responsibilities for financial statements audits occurs. Also, we agree with the other changes to ISA 700 proposed in paragraph 102.
14. We agree with allowing national standard setters flexibility in the ordering of the auditor's report. Such flexibility is important to encourage additional jurisdictions to adopt the ISA reporting standards. However, we have concerns with lack of clarity with respect to the location of "other reporting responsibilities" (proposed ISA700.41) in view of the flexibility provided for in the auditor's report on financial statements. While proposed ISA700.41 indicates that "these other reporting responsibilities shall be clearly differentiated from reporting from ISAs", application guidance does not make it clear that this reporting should not be interdisbursed with reporting required under proposed ISA700.37.

Yours truly,



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Acting Provincial Auditor

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