

October 5, 2012

IAASB
529 Fifth Avenue
6th Floor
New York, New York 10017

Dear Sir/Madam,

RE: IAASB Invitation to Comment: Improving The Auditor's Report

We are pleased to have this opportunity to comment upon the proposals in the IAASB Invitation to Comment: Improving the Auditor's Report. I am submitting the following comments on behalf of the 22 member firms of the Collins Barrow National Cooperative. We are the eighth largest group of chartered accountants in Canada providing a full-range of services to our clients including assurance, taxation and management advisory services. While we service primarily private enterprises, we also service a large number of public companies, not-for-profit organizations, and entities in the public sector.

As requested, we are providing our comments by way of responding to the following questions in the Invitation to Comment.

Question 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?

Response: We believe that the Auditor Commentary is not an appropriate response to the call for auditors to provide more information to users. The purpose of financial statements is to convey the representations of management with respect to an entity's financial position and the results and cash flows of its operations and activities. Management is the most knowledgeable about the facts and circumstances surrounding these representations in the financial statements. The auditor, by their nature, is removed from management, and as a result, will not likely have that same wealth of knowledge. Accordingly, it would appear that management, not the auditors, are in the best position to provide information that will be useful to users of the financial statements. It then follows that the financial statements are the vehicle that should be used to convey information to users, not the auditor's report.

If users need more information, and it is our understanding that this is what is giving rise to the call for the Auditor Commentary, then it would appear that the accounting standards for financial statements fall short of users' expectations. We say this because that is the purpose of the accounting standards, to provide users with financial information. The purpose of auditing standards, on the other hand, is to provide a framework for conducting an audit that will allow the auditor to report whether the financial statements are presented fairly based on an appropriate accounting framework. Accordingly, we recommend that the accounting standards rather than the auditing standards be amended to provide users with the information that they need. We believe that it is inappropriate to use the auditing standards for a purpose that they are not designed to serve.

If the proposal for the auditor to provide commentary in the auditor's report proceeds, we are concerned that the auditor will be adding another layer of information that users of financial statements are being asked to read in order to understand an entity's financial performance. Currently, for listed entities, users need to read the financial statements and the management discussion and analysis, at the very least, to understand an entity's financial performance. By creating an additional document for users, we are unnecessarily adding to the burden of users. Wherever possible, we should be making it easier, not harder, for users to understand an entity's financial performance. We can assist users in this respect by keeping all of the information that they require in the financial statements, and not putting some of it in the auditor's report.

Another concern that we have with the Auditor Commentary is the potential for conflicts arising between management and the auditor with respect to confidentiality. During the course of an audit, auditors become aware of many matters that management does not publicly disclose with respect to facts, opinions and judgments. As auditors, we use that information to reach our own opinion whether the financial statements are presented fairly. If the proposal to provide Auditor Commentary is adopted, we could encounter situations where a matter has not yet been disclosed externally by the entity but the auditor believes that the matter should be raised in the Auditor Commentary. This would put us in an untenable position between a requirement to disclose in accordance with the assurance standards and to maintain the confidentiality of client matters as required by our ethical rules and regulations. Given that listed entities often have additional requirements placed upon them by other authorities, such as securities regulators, such situations are more likely to arise with private entities and not-for-profit enterprises. We believe that this is a situation that must be avoided.

Another concern that we have with the Auditor Commentary is that many of the disclosures may become "boilerplate" and as a result, fail to provide the additional specific information that users seek. We expect that within a very short time, as auditors view what other auditors have issued, common wording for specific matters will be adopted by auditors and used in the Auditor Commentary. In Canada, we have seen this happen recently with the emphasis of matters paragraph when discussing the use of the going concern assumption. The result has been that the emphasis of matters paragraph in these cases adds very little, if any, information for the user. We believe that it is inevitable that this will also occur with the common issues raised in the Auditor Commentary. As a result, these proposals will fail to achieve their intended purpose of providing more information to users.

The last concern we wish to raise about the Auditor Commentary is the auditor's ability to determine the specific information that is needed by various users. For the most part, financial statement audits are of general purpose financial statements. By their nature, they are meant to be used by many different users. We wonder how is it that auditors are going to be able to foresee all of the users' specific needs to determine which matters are worthy of mention in the Auditor Commentary. We believe that auditors, by the nature of the training and experience, often have an appreciation of what information may be useful to lenders, investors, financial analysts, and regulators, however, auditors do not have in-depth knowledge of the processes and procedures that each user may follow. Without this in-depth knowledge, it would be easy for an auditor not to fully appreciate the need for specific information that a user may need. We believe that these proposals are asking too much of auditors. Not only do auditors need to obtain the aforementioned in-depth knowledge, but they must do so on a continuous basis in order to stay up-to-date with the new developments in the various users' fields. This is in addition to their own area of expertise of auditing and accounting. The end result of this is that certain users will not have all of the available information in the Auditor Commentary that would be useful to them when making their decisions

Question 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?

Response: We are concerned that if the matters to be addressed in Auditor Commentary are left to the judgment of the auditor with little or no guidance, that the matters that will be addressed will vary considerably from entity to entity and not address all users' needs.

General purpose financial statements, which are predominantly the type of financial statements that are audited, are used by many different users. Different users will have differing needs of information from the audited financial statements. Auditors are trained to have a general understanding of what those needs may be, but they will not have the same in-depth knowledge as users of their processes and procedures, and as a result, may not be aware of all of their needs. In the end, some user needs may be met by the Auditor Commentary, while others will not. Significant guidance will be needed so that auditors and users are aware of the limitations of the information available in the Auditor Commentary and users are aware of the circumstances when they will need to obtain additional information from the details in the financial statements rather than solely rely on the information contained in the Auditor Commentary.

Another important issue of concern is comparability.. When comparing similar entities that share common issues, there is a reasonable expectation that the auditor's report for each of these entities will be similar with respect to those common issues. Any differences that do arise between such reports should be due to differing facts and circumstances. To ensure that this is the case, and that consistency in application is achieved, it will be imperative that there be extensive, objective guidance as to what

matters must be discussed and the depth of those discussions. We believe that anything less than that will reduce the consistency and comparability between reports.

Should the standard fail to include extensive guidance as to what to include in the Auditor Commentary, we believe that the incidence of “audit report shopping” will become a concern. Without extensive guidance, management will be in a position to recommend and/or appoint the auditor that is more willing to include or exclude matters that reflects most favourably upon management and the entity. By providing extensive guidance, the incidence of variability between auditors will be diminished, thereby avoiding this inappropriate shopping for the most favourable report.

Question 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?

Response: We believe that it is inappropriate for the Auditor Commentary to provide a description of certain audit procedures and their related results. Most users of financial statements have not been trained in conducting an audit. As a result of this, we are concerned whether users may be able to properly interpret the reporting of specific procedures and their results. Auditing procedures are often not conclusive but rather are persuasive due to the nature of the procedures conducted and the use of sampling. The auditor, through their training and experience, then takes all of this persuasive evidence to reach a conclusion about the financial statements as a whole. It would seem inappropriate to provide users with an impression that certain procedures as discussed in the auditor’s report are more important than the other procedures conducted that are not reported. If auditors are required to present specific procedures and their results in their report, auditors will need to extend their sample to increase their confidence that the result being reported, and relied upon by others, is appropriate in the circumstances. This will increase the cost of an audit.

Question 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 (TCWG), the timing of financial statements, and costs?

Response: We are concerned as to the effect that the inclusion of the Auditor Commentary will have on the timing of the financial statements and the cost of an audit.

In Canada, we have many clients that are small entities that are listed on public exchanges. Due to their size, they often have limited staff to prepare the annual financial statements. As a result of this, financial statements are often not completed until near the reporting deadline. This proposal of providing Auditor Commentary is going to require that the auditor spend more time in the writing, reviewing and editing of the auditor’s report. In order to compensate for this extra time needed, and still meet reporting deadlines, the easy answer would be to tell that client that their financial statements must be ready earlier in the audit process than is currently the case. However, this is unlikely to happen based on previous experiences with these clients due to their lack of staffing and lack of resources to

hire more staff. As a result of this, more pressure will be placed on the auditor to do more work in the available amount of time. We are concerned that this will result in reports that are not as robust and fulsome as users would desire, thereby reducing the usefulness of the Auditor Commentary.

As a result of spending more time on the audit to gather more evidence than is currently the case and to spend more time writing the report, audit fees will need to increase. We can also imagine that there will be situations where an auditor will want to obtain legal counsel to review a proposed auditor's report when that report includes contentious issues. Especially for small publicly listed entities, this can be a hardship. Many of these entities are in the research and development stage. During this stage, they have little or no revenue. As a result of this, they rely on regular continuous efforts to raise financing in order to sustain their research and development. By increasing the cost of an audit, we are asking those entities to divert more of their precious funds from research and development to administrative compliance costs. In an age where economies are weak, at best, and nations rely on the continuing development of new ideas and products, we believe that these proposals are counter-productive to the good of society by increasing the cost of compliance.

Question 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?

Response: While there is merit in the argument that the same audit standards should apply to all entities, we believe that the auditor should have discretion whether to include the Auditor Commentary for certain audits. We base this conclusion on the premise that for many non-listed entities that require an audit, the primary user of the financial statement often has an ability to obtain further information. This ability may arise due to their relationship, such as a lender to a private entity, or through law or regulation, such as a government funder to a not-for-profit entity. As a result of this ability to obtain further information, the cost of providing the Auditor Commentary far outweigh any benefit that the user will obtain. Accordingly, by providing this discretion, the burden of an unnecessary cost is avoided.

Question 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?

Response: We find it difficult to believe that having the auditor explicitly report on their agreement with management's assessment on going concern is an improvement over current requirements. Currently, auditors must either agree or disagree with management's assessment on the use of the going concern assumption. If we agree, an auditor does not state anything in their report on this matter or if there are significant uncertainties giving rise to the doubt of the use of the going concern assumption, the auditor draws the user's attention to that through the emphasis of matters paragraph.

If we disagree, then the auditor includes a qualification to their report. It is our view that present standards already achieve what the proposals are trying to achieve.

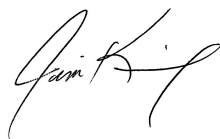
We also believe that by having the auditor explicitly report on the use of the going concern assumption mixes the roles of auditor and management. It is management's responsibility to assess the use of the going concern assumption and for the auditor's role is to evaluate that assessment. If the auditor is required to explicitly report on this matter, then the auditor is assuming the role of management of providing information to users. This mixing of roles creates unnecessary confusion to the user.

We are also concerned that the auditor will have greater exposure to litigation by making a positive statement about agreement with management's assessment of using the going concern assumption. In particular, we are concerned with the situation where the entity ceases to be a going concern due to events or circumstances that occur subsequent to the financial statements or due to other non-financial events, such as product liability. We believe that users will perceive that the auditor was negligent in providing their positive agreement with management's assessment of the use of the going concern assumption, even when the facts and circumstance do not support such a perception. There is a cost involved with dealing with these matters that will put upward pressure on audit fees.

For all of the forgoing reasons, we believe that it is inappropriate for the auditor to explicitly report on management's assessment of using the going concern assumption.

I trust that the IAASB will find our comments useful in their deliberations on improving the auditor's report. If you have any questions, do not hesitate to contact me.

Yours truly,

A handwritten signature in black ink, appearing to read "Jim King". The signature is fluid and cursive, with the first name "Jim" and last name "King" clearly distinguishable.

Jim King, CA
National Director of Professional Practice