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October 30th, 2013

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue – 14th Floor
New York, NY 10019
U.S.A

Dear Mr. Gunn:

Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

The Canadian Performance Reporting Board (CPRB) of the Chartered Professional Accountants of Canada (CPA Canada) and its Small Company Advisory Group (SCAG) are pleased to comment on the Exposure Draft - *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*.

CPA Canada is the national organization representing the Chartered Professional Accountant profession in Canada. The Canadian Institute of Chartered Accountants (CICA) and The Society of Management Accountants of Canada (CMA Canada) created the organization on January 1, 2013, to support unification of the Canadian accounting profession under the CPA banner.

The CPRB is responsible for providing vision and leadership to the work of CPA Canada in improving the quality of external reporting, focusing on publicly traded entities. Members of the CPRB are drawn from the primary stakeholders in the business reporting community – senior financial management, audit committee chairs, investors, auditors, and financial academics.

The SCAG is charged with providing CPA Canada advice about the needs of small Canadian public companies. Members of the SCAG all work in this important sector of the Canadian economy as senior financial management, audit committee chairs, or auditors.

CPRB and SCAG member views on the Exposure Draft remain unchanged from those previously expressed about the Invitation to Comment. Decisions on the content for auditors' reports should be made in the public interest, considering the needs, costs, and benefits for all affected stakeholders. In our view, these proposals will not improve users' understanding of the audit. The auditor commentary will result in a boilerplate summary that is likely to confuse rather than inform users and will involve significant additional cost for shareholders. As well, reporting on going concern in every auditor's report will detract from existing practice that highlights circumstances when legitimate concern exists. In addition, users may perceive such commentary as auditor assurance about the entity's future viability, further widening the "expectations gap".

Notwithstanding our views about these proposals, we set out some suggestions in the attached Appendix that we believe could mitigate some of our concerns.

Yours truly,

Karyn Brooks

Karyn Brooks, FCPA, FCA
Chair, Canadian Performance Reporting Board

Chris Hicks

Chris Hicks, CPA, CA
Principal, Research, Guidance & Support

cc: Mark Davies, CPA, CA, CIA
Chair, Auditing and Assurance Standards Board (Canada)

APPENDIX – COMMENTS ON EXPOSURE DRAFT

1. **Consistent reporting in all jurisdictions**

In today's international environment, the auditor's report needs to be consistent across all jurisdictions in which an entity has or expects to have investors. Accordingly, we believe the IAASB should work with the Public Company Accounting Oversight Board (PCAOB) to ensure consistency in reports developed under the IAASB and PCAOB standards. As well, we believe users' understanding of reports will be facilitated if they are prepared in accordance with a pre-determined order of matters to be addressed.

2. **Key audit matters**

We understand the potential benefit to be derived from a discussion of key audit matters. However, we believe two auditors could adopt significantly different approaches to the same matter that could result in very different communications for a user. As well, we do not see any benefit from discussing the audit procedures performed around any particular issue. Accordingly, we believe communication about key audit matters should be restricted to a high-level discussion of the issue without reference to the audit procedures employed. For example, "The audit was planned and executed in the context of an industry that involves significant management judgment with respect to revenue recognition and measurement, particularly in respect of side agreements that amend long-term contracts".

In our view, to mitigate the risk of litigation, auditors will tend to treat many matters, including relatively insignificant matters, as key audit matters for fear of excluding an item from the report which, although appropriately addressed by the auditor at the time of the audit, subsequently becomes a key matter. Additional guidance in the standard to prevent this result would be useful.

3. **Going concern proposals**

In the absence of a material uncertainty regarding the going concern basis of accounting, we do not believe the auditor's report should discuss going concern. If more disclosure is required, we suggest that this should be presented in the financial statements. We believe the proposal in the Exposure Draft to include a statement about the appropriateness of management's use of the going concern basis of accounting when no material uncertainty has been identified will tend to confuse readers and is likely to contribute to an increased "expectations gap".

4. **Cost/benefit of proposals**

We believe that reporting key audit matters will add significant cost to the audit, as it will involve considerable negotiation between the auditor and management. We question the cost/benefit of this activity, particularly for Canada's many resource-constrained smaller public entities. We recommend that the final standard's application contemplate a stratified approach. For example, in Canada it is possible to identify three types of publicly traded entity: entities listed on multiple exchanges, entities listed on the Toronto Stock Exchange, and generally smaller entities listed on the TSX Venture exchange.

5. Pilot program

Rather than implementing the standard on a widespread basis and then subjecting it to a post-implementation review, consideration should be given to implementing the standard as a pilot program for the first two or three years and assessing auditors', managements', and users' reactions to the standard. If this approach were to be adopted, the stratified approach noted above could be applied so that only entities listed on multiple exchanges would be subject to the standards' requirements during the pilot period.