

September 30, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006-2803
United States

Sent via email to comments@pcaobus.org

Dear Office of the Secretary:

Re: Request for Public Comment: *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*, PCAOB Rulemaking Docket Matter No. 034

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the Public Company Accounting Oversight Board (PCAOB) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*, PCAOB Rulemaking Docket Matter No. 034 (the concept release). We commend the PCAOB for soliciting public comment in connection with your proposed project to deal with possible revisions to the content and form of reports on audited financial statements and we appreciate the opportunity of responding to you.

By way of general background, the AASB's mission is to serve the public interest by setting high-quality standards and guidance that enable the Canadian public accounting profession to provide effective auditing, other assurance and related services. The AASB has the authority, as reflected in federal and provincial Business Corporations Acts, and other legislation and securities regulations, to set generally accepted auditing standards (GAAS) for financial statement audits in Canada. The activities of the AASB are overseen by the Auditing and Assurance Standards Oversight Council (AASOC), an independent body consisting of business leaders and regulators and having the oversight responsibility to ensure that the public interest is properly taken into account in the development of auditing and assurance standards in Canada by the AASB.

The AASB adopts International Standards on Auditing (ISAs) and International Standards on Quality Control (ISQCs) as Canadian Auditing Standards (CASs) and Canadian Standards on Quality Controls (CSQCs) respectively on the same timetable as the International Auditing and Assurance Standards Board (IAASB). CASs and CSQCs are Canadian GAAS for audits of financial statements. The AASB only makes amendments to ISAs and ISQCs that may affect how a practitioner performs an audit of financial statements in circumstances that meet specific criteria. These criteria allow the AASB to make very limited amendments, for example, to meet Canadian rules of professional conduct and to incorporate joint protocols for communicating with the Canadian legal and actuarial professions. When amendments are made, they are clearly identified in the standards. The AASB strongly believes in the consistent application of these standards and promotes their adoption globally.

Our key comment

In writing this response letter to you, we would like to focus on only one particular aspect of this project which is the importance of the PCAOB coordinating and collaborating with other global standard setters such as the IAASB on the auditor reporting model.

Background to our key comment

Canadian entities, like those in other countries, participate in today's global capital markets. However, Canada is also in a special position in that it has approximately 350 public companies registered and reporting with the Securities and Exchange Commission (SEC) as of December 31, 2010. This is well over twice the number from any other country and over a third of all foreign registrants.

Canadian securities regulators permit Canadian SEC registrants to have their audits conducted in accordance with PCAOB standards, recognizing the strong interrelationship between Canadian and US capital markets. Although there are differences between PCAOB reporting standards and Canadian GAAS, the auditors for some SEC foreign registrants are still able to prepare a single audit report that refers to both Canadian and PCAOB GAAS. This would not be possible if the reporting standards set by the PCAOB and IAASB were to diverge significantly.

While some flexibility between PCAOB reporting standards and those of the IAASB may be needed, we are concerned that significant differences in the form and content of reports resulting from the two sets of standards would create confusion for readers of auditor's reports on financial statements of Canadian SEC registrants, particularly as these comprise many of Canada's largest companies. We believe that significantly different auditor reporting models are not in the public interest.

The AASB responded to the IAASB's Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, on September 16, 2011 and we attach a copy of our response for your information. We note that there are many overlapping areas of interest between the concept release and the IAASB's Consultation Paper. For example, we believe that the approach we used to develop our response to the IAASB, which included applying a series of boundaries to guide our responses to questions posed, would be equally applicable to the concept release.

We hope that our view will be useful to the PCAOB in developing the possible revisions to PCAOB reporting standards. If you have any questions or require additional information, please contact Greg Shields at (416) 204-3287.

Yours very truly,



Bruce Winter, FCA
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board Members
Canadian Auditing and Assurance Standards Oversight Council Members
enc. AASB response on IAASB Consultation Paper, dated September 16, 2011

September 16, 2011

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

Dear Mr. Gunn,

**Re: Consultation Paper *Enhancing the Value of Auditor Reporting:*
*Exploring Options for Change***

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the Consultation Paper (CP) *Enhancing the Value of Auditor Reporting: Exploring Options for Change*. In developing this response, we considered comments provided to us by our stakeholders who showed a strong interest in this topic. Over 100 stakeholders participated in ten face to face and conference call meetings we held with various user groups, including company management, audit committees, directors, regulators, auditors and others. Nearly 300 participants also provided input to polling questions presented during an interactive webinar. We would be pleased to provide you with access to this data should this be of interest to you.

GENERAL COMMENTS

We support the efforts of the IAASB as it seeks to obtain a better understanding about views on the issues raised in this CP as a pre-requisite to considering possible improvements in auditor reporting. We agree that it is appropriate to monitor and maintain the value and relevance of auditor reporting including, as appropriate, enhancing the auditor's report on the financial statements. In our view, there are opportunities for enhancing auditor reporting that will help meet the information needs of financial statement users and reduce the expectations gap.

The auditor's report is the key output from the audit process. We believe it is important that an international solution be developed on the form and content of the auditor's report and the auditor reporting model so that users around the world can understand and compare auditor's reports on a consistent basis. For example, many Canadian entities have operations in the United

States and other international markets. We believe it would be confusing to users of Canadian financial statements if there are significant differences among auditor's reports in major jurisdictions. For this reason, we urge the IAASB to work together with other bodies that are taking an interest in auditor reporting, such as the European Commission and the United States Public Company Accounting Oversight Board.

Having reviewed the results of the consultations referred to above, we noted a diverse range of views on many of the options presented in the CP. To put these views in perspective in a response letter to you, we developed a series of "boundaries" – a set of guidelines set out in the Appendix to this letter covering:

- cost/benefit considerations;
- maintaining and communicating the respective responsibilities of the auditor, management and those charged with governance in an audit of financial statements;
- other form and content issues; and
- the auditor's ability to provide assurance on information.

We have used these boundaries to guide our responses to each question posed in the CP and we believe that this has enabled us to present you with responses based on a rationale framework for moving forward. We commend this approach to you and hope that it may be of assistance as you consider the responses to the CP.

Where appropriate, we have included in our response to a question additional views presented to us by our stakeholders that provide support for our response.

RESPONSES TO QUESTIONS

Issues Identified

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

We agree that there is an expectations gap between what users expect from the auditor and the reality of what an audit is. This has been recognized, discussed and debated for many years. There continues to be a lack of understanding about the scope of an audit.

As noted in the Preface to the CP, the IAASB recently made improvements to the auditor's report that were intended to address the expectations gap. We strongly supported those changes. In particular, we note that the expanded description of the auditor's responsibilities with respect to internal control have been well-received in Canada.

We also support the IAASB considering how the expectations gap can be narrowed. However, we believe that it is unlikely that further changes to the auditor's report, regardless of their nature and extent, will be able to completely eliminate the expectations gap. In our view, continuing work needs to be done to educate stakeholders about the nature and value of an audit. In our discussions with our stakeholders about the CP, we noted that many of them were not only unfamiliar with what an audit is, but also were unfamiliar with the broader context of the financial reporting process and the different measures in place in many jurisdictions to safeguard the quality of audits. We support and encourage the IAASB to continue its work in this area.

We also agree that there may be an information gap between what information about the entity and the audit is available and what is provided through the audited financial statements and other corporate disclosure mechanisms. At the same time, stakeholders informed us that in Canada there is sufficient information available in the financial statements and Management's Discussion and Analysis (MD&A) to assist users with their decision making. But in many cases, users are unwilling to read this information or they do not understand it. Users therefore question whether the information gap can be addressed by simply providing more and more information. Some users already feel overwhelmed by the volume of information provided in financial statements and other documents. For them, providing more information would not be helpful.

Many users have also indicated that they neither want nor value the additional commentary that auditors might make on the entity's financial information. In their view, such commentary would not likely be particularly helpful because users are not convinced that auditors have the competencies, nor are there available suitable criteria, for them to provide insightful comments that would affect users' decision making. Based on these comments from our stakeholders, we are not convinced that providing additional information about the entity in the auditor's report will address the expectations gap.

We noted that most of our stakeholders agreed that some changes to auditor reporting would be beneficial. For example, over 88% of respondents in our webinar strongly agreed or agreed with the statement "Keeping in mind benefits, costs, potential challenges and other implications at least some proposed options to enhance auditor reporting in the IAASB's Consultation Paper should be pursued."

2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

We believe that the following are the critical issues that need to be addressed when considering changes to auditor reporting:

- The format and structure of the auditor's report should effectively communicate what the auditor has done and the conclusions the auditor has reached.
- The auditor's communications with those charged with governance should assist those

charged with governance in playing an appropriate corporate governance role.

- Auditor reporting should support other changes that would strengthen the role of those charged with governance. In this respect, the IAASB can play a role in working with international bodies such as the International Corporate Governance Network and the International Organization of Securities Commissions.

The following are some key considerations in developing a revised format and structure of the auditor's report:

- (a) *Meeting the divergent needs of users of financial statements.* It is evident that different users have different information needs with respect to understanding the audit and the auditor's report. On the one hand, there are many retail investors, for example, whose interests are limited to understanding who has done the audit, what has been its scope, what the auditor's conclusion is from it, and that the report is a standard report. A simple pass/fail report with standardized wording often meets their needs. Significantly expanding the auditor's report may only serve to confuse such users. On the other hand, there are users, for example institutional analysts, who want more information about the audit, including what were the areas of audit focus, how the auditor addressed significant risks and so on. For these users, the current form and content of the standard auditor's report does not appear to meet their needs. They are looking for a report that is more entity specific and nuanced. Finding the appropriate balance among different users appears to be one of the most challenging issues in making changes to auditor reporting.
- (b) *Agreeing on what can reasonably be communicated in the auditor's report in order to provide value and enhance audit quality.* There is the potential to dramatically increase the amount of information that is contained in the auditor's report. However, as the auditor's report is incrementally increased, it is difficult to determine whether and to what extent the benefits of such additional information are counteracted by the lack of willingness of many users to read longer reports and the risk that they will be more rather than less confused. Simply increasing the quantity of information will likely not improve the quality of information.
- (c) *Demonstrating that benefits exceed costs. For the options presented in the CP, there is a need for a clear articulation of the related costs and benefits.* We believe that the IAASB needs carefully to consider which stakeholders will bear the associated costs, which stakeholders will receive the benefits of the various options and whether the benefits exceed costs. Because some of the options may not have been implemented previously, there may not be factual information available that demonstrates costs and benefits. In addition, there may be unanticipated consequences for certain options that may not be identified until they are implemented.

We believe that all users are affected by these issues. However, there is a need to consider providing guidance on enhancing the auditor’s communications with those charged with governance in smaller entities, especially smaller listed entities.

3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities

We believe in the principle that “an audit is an audit” and that the form of auditor’s report on the financial statements should be the same irrespective of the entity being audited. We would be concerned that different forms of auditor’s report for different entities would create unintended differentiation of the perceived relative quality of their financial statements; for example, the financial statements of unlisted entities might be considered to be second rate as compared with those of listed entities solely on the basis of the different form of auditor’s report. Accordingly, we believe that changes are needed for audits of all types of entities.

As a result, the implications of potential changes to the auditor reporting model need to be considered in this light so that unnecessary burdens are not placed on small and medium sized entities, particularly private companies. At the same time, we recognize that auditors of financial statements of listed entities, for example, may have additional responsibilities that need to be reflected in the auditor’s report.

Format and Structure of the Standard Auditor’s Report

4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor’s report described in Part A.

Our stakeholders strongly supported including the explanation of management’s and the auditor’s responsibilities either within the report or as an appendix to it. Several respondents told us that they believed that the audit opinion should receive greater prominence because it is the key element of the auditor’s report.

The following summarizes our reaction to the different options described in Part A as discussed in more detail below:

Relocate the management and auditor responsibility paragraphs to a separate document.	We do not support this option because we believe that the auditor’s report would not be complete without a description of management’s and the auditor’s responsibilities. We believe that readers of the auditor’s report will not take the time to read a separate document. Because of this, under this option there may be confusion as to management’s and the auditor’s responsibilities.
Remove these paragraphs	We do not support this option for the same reasons as

entirely from the auditor's report.	above.
Retain these paragraphs in the auditor's report (and, as appropriate, expand their content)	We support this option. We believe that these paragraphs are important because they address the expectations gap. There may be opportunities to improve the wording in these paragraphs.

We believe there is merit in considering an enhanced format, structure and content for the auditor's report as reflected in Appendix 1 of the CP. We also believe there is merit in considering whether wording used in the auditor's report can be made less technical, without significantly expanding the length of the report.

In summary, we support retaining a brief description of the auditor's and management's responsibilities within the auditor's report, possibly with a reference to an appendix to the auditor's report or a separate document that expands on these descriptions.

5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

We believe that removal of these paragraphs from, or relocation of them outside, the auditor's report would have unintended consequences of widening the expectations gap. We believe that many users, particularly in smaller entities, do not understand the different roles of management and the auditor. An explanation of these roles therefore needs to be readily available. Their removal from the auditor's report or their relocation outside the auditor's report, for example on a website, would, in our view, make it much less likely that users would read the information.

We would not object to re-positioning the management and auditor responsibility paragraphs within the auditor's report. These paragraphs are not as important as other paragraphs, such as the auditor's conclusion, which should be located in a more prominent position.

We believe that there may be benefit in expanding the paragraphs to clarify them. There may also be benefit in expanding the paragraphs to clarify the auditor's role with respect to the assessment of the ability of the entity to continue as a going concern. At the same time, we note that some stakeholders also indicated that they prefer a simplified form of report and that making the report longer may make it difficult to understand.

We believe that it is important for readers that they understand the auditor's role not only with respect to the audit of the financial statements but also with respect to other information in documents containing financial statements. Accordingly, we support expanding the auditor's responsibility paragraph to include a statement about the auditor's responsibilities for such other information.

Other Information in Documents Containing Audited Financial Statements

6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

Many users do not appear to understand what involvement the auditor has had with other information. For example, some financial reporting frameworks permit the entity to include certain financial statement disclosures in the MD&A (or a similar document) outside of the financial statements. Such disclosures are often subject to audit. However, the MD&A includes other information not specifically referenced from the audited financial statements. Therefore, there may be confusion about what information in the MD&A has been audited and what has not. It would benefit users if this could be explained.

While we support including in the auditor's report a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements, we also recognize that sometimes such documents may be produced at a later date than the audited financial statements and that it may be impractical for the auditor to make such a statement about these responsibilities in the auditor's report in every case. An option to consider is whether the statement about the auditor's responsibilities for other information could be included in the document itself.

7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

We believe that the statement could be based on paragraph 1 of ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, and explain that:

- The auditor is required to read the other information that is included in a document containing audited financial statements and the auditor's report thereon;
- The auditor reads the other information because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information;
- The auditor's opinion does not cover other information; and
- The auditor has no specific responsibility for determining whether or not the other information is properly stated.

Our stakeholders were strongly in favour of the auditor including a statement indicating whether the auditor has anything to report with respect to the other information. We believe that the IAASB should consider developing guidance so that auditors can do so. In our view, such a statement would effectively close the loop with respect to the auditor's involvement with respect to that information. However, such a statement should not provide assurance on the information because the auditor has not performed procedures to obtain such assurance.

Auditor Commentary on Matters Significant to Users' Understanding of the Audits or the Audited Financial Statements

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

We are not in favour of the auditor providing additional information about the audit in the auditor's report on the financial statements for the following reasons:

- 1 It is unclear what the benefits of this information would be to users and whether these benefits would exceed the related costs. Due to the potential for increased legal liability, additional information may become standardized and boilerplate, not resulting in any positive benefit to users.
- 2 The CP notes that expanding the auditor's reporting responsibilities may enhance perceptions of audit quality. We are not aware of any evidence that this is the case.
- 3 Such additional disclosure by the auditor may give rise to the problem of "dueling" information about the entity – information about the entity being provided from two sources – with the consequence of blurring the responsibilities of the auditor and management.
- 4 It would likely result in a significant expansion of the auditor's report and move the report away from a standardized format. There is a danger that companies, for example in the same industry, will expect that their auditor's reports should contain similar information to those of their competitors. There will therefore be pressure on auditors to make their reports consistent with those of other entities. There will also be pressure for auditors to present this information consistently from year to year.
- 5 It is likely that only a limited number of users would understand the information being provided; other users may find the information confusing, misinterpret the information or find that it obscures other parts of the auditor's report. The audit committee has a detailed understanding of the entity and can ask the auditor questions on the auditor's commentary. Placing such commentary in the public domain, however, would be of limited value because users do not have the necessary background to understand the context nor can they question the auditor on it.
- 6 Suitable criteria may not be available for auditors to make consistent judgments about the areas being reported on. For example, how would the auditor make judgments about the quality and effectiveness of management unless there were appropriate criteria for making such judgments?

9. Respondents are asked for their reactions to the example of use of “justification of assessments” in France, as a way to provide additional auditor commentary.

We are not convinced that the benefits of this approach have been fully realized to justify it being adopted internationally. As explained in the CP, there is the potential for confusion about what information is being provided by the entity and what information is being provided by the auditor. This may cause confusion as to the separate responsibilities of the management, those charged with governance and the auditor.

We believe that this approach also suffers from many of the drawbacks listed in our response to question 8.

10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor’s report.

Paragraph 61 of the CP notes that some hold the view that more frequent use of Emphasis of Matter paragraphs could contribute to the quality of financial reporting. In considering whether we support this approach, we acknowledge the statement in ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report, paragraph A2, that “A widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor’s communication of such matters.” Increased use of the proposed approach for Emphasis of Matter paragraphs would therefore serve to dilute the usefulness of such paragraphs.

We also note that ISA 706 is a relatively new standard. We believe that before considering expanding the use of Emphasis of Matter paragraphs, the IAASB should study the extent of use of such paragraphs in practice and the effect their use is having on the quality of financial reporting.

Increased use of Emphasis of Matter paragraphs would also suffer from many of the disadvantages included in our response to question 8. Also, we believe that the determination of when to use Emphasis of Matter paragraphs should remain with the professional judgment of the auditor.

In addition, we believe that it is management’s responsibility to focus on matters that may be significant to users’ understanding, not the auditor’s. Increasing the use of Emphasis of Matter paragraphs is not the appropriate tool to improve the quality of financial reporting. This should be addressed directly in the applicable financial reporting framework. Responsibility for improving the quality of financial reporting should not be placed at the feet of auditors.

Finally, paragraph 72 of the CP calls for the auditor to share insights and perceptions about the entity or the quality of its financial reporting based on the work done for the financial statement audit. We do not support these proposals for the reasons included in our response to question 8.

An Enhanced Corporate Governance Reporting Model: Role of Those Charged with Governance Regarding Financial Reporting and the External Audit

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Part D.

We agree that the interaction between those charged with governance and the auditor offers a sound platform for exploring further enhancement of corporate governance reporting. We support building on the existing two-way communication and dialogue about the audit between the audit committee and the independent auditor. In Canada, many auditors already provide the audit committee with information for it to understand fully the factors the auditor has relied upon in exercising professional judgment in the course of the audit and in reaching the audit opinion. We believe that such communication assists the audit committee in fulfilling its oversight responsibilities for the financial reporting process. We recognize, however, that the IAASB does not have the authority to mandate this sort of communication by audit committees but may have a role in working with others who do have such a mandate.

In Canada, many audit committees already report publicly on their oversight responsibilities. We believe that extending this type of reporting to include more detail about how these responsibilities have been discharged would improve corporate governance.

12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

We see the following challenges that may be faced in promoting its acceptance:

- There may be resistance from audit committees in some jurisdictions from accepting the additional reporting responsibilities and the related additional legal liability.
- In some jurisdictions, the corporate governance regime may not be strong. As a result, audit committee members may not have the skill sets required to prepare the kind of public reports contemplated by the enhanced model.
- Auditors will likely require more detailed guidance on how to meet the additional communication requirements of the enhanced model.
- The model may not work well for smaller entities where corporate governance arrangements are less formal and there is less need for communications between those charged with governance and shareholders.

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

We do not support the auditor reporting on the completeness and reasonableness of the audit committee's report for the following reasons:

- It is unclear what the benefits of such a report would be and whether they exceed the related costs.
- It appears to be contradictory to have the auditor, who is appointed by and reports to the audit committee, reporting publicly on the activities of the audit committee. It puts the auditor in a position of conflict by having to challenge the body that appoints the auditor.
- The auditor may not have the background knowledge and competencies to question the judgments of the audit committee.
- Such a reporting role could prejudice the ongoing two-way communication between the audit committee and the auditor. The audit committee may become reluctant to discuss issues with the auditor for fear of being contradicted publicly on the judgments it is making.
- It may undermine the accountability of the audit committee to the shareholders.

Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Part E.

We have not seen evidence of a need for, or benefit from, auditors providing such services. By way of example, the US requires that auditors report on an entity's internal control over financial reporting. When this was enacted in the US, Canadian regulators considered carefully whether this form of reporting was appropriate in Canada due to its close proximity with the US. In the end, regulators did not require such reporting. There is no clear evidence that the requirement to report on internal control over financial reporting, or the lack of such a requirement, has had any significant effect on the expectations gap or the information gap. This may be an area that merits further study.

We also believe that auditors may not have all the required competencies to provide assurance in some of the areas suggested in paragraph 88 of the CP. For example some Canadian stakeholders question whether auditors have the competencies to provide assurance about the business model or enterprise risk management.

It is not clear to us whether appropriate criteria could be developed in other areas suggested in paragraph 88 of the CP. For example, key performance indicators are often industry-specific and are not necessarily based on an applicable financial reporting framework. It seems unlikely that it would be possible to develop generic criteria for such indicators.

We note that in the United States a standard for providing assurance on MD&A has been in place for many years but understand that it has rarely been used in practice. We believe it might be beneficial for the IAASB to consider the US experience with this form of assurance before embarking on a project to develop a similar assurance standard. In this respect, our stakeholders did not support auditors reporting on the MD&A. They believe that doing so will stifle the useful reporting that currently takes place in such documents because it will inhibit management from

making forward-looking and other qualitative statements on which it is difficult for auditors to provide assurance.

15. What actions are necessary to influence further development of such assurance or related services?

We believe further study needs to take place to determine the costs and benefits of any of these services as a prelude to considering more detailed issues such as the availability of suitable criteria, and whether auditors have the competencies to perform such engagements.

Implications of Change

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

Addressed in responses to other questions.

17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

We believe that for many smaller entities the benefits of the various options may differ significantly from those for larger entities because of differences relating to the types of users (institutional analysts are more involved with listed entities) and corporate governance structure (often there are overlaps between management, those charged with governance and shareholders).

18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case. In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

In summary, we support the following options as being the most effective in enhancing auditor reporting while falling within the boundaries that we defined in the Appendix to our response letter:

- Improving the format and structure of the auditor's report by:
 - Repositioning the opinion paragraph to a more prominent position in the report;
 - Reporting on audit procedures required by ISA 720;
 - Retaining a brief description of the auditor's and management's responsibilities within the auditor's report, possibly with a reference to an appendix to the auditor's report or a separate document that expands on these descriptions;

- Using less technical language in the report.
- Enhancing the auditor’s communication to those charged with governance.
- Public reporting by the audit committee explaining how it discharged its responsibilities. In this respect, we believe the IAASB may need to explore with other international bodies, such as the International Corporate Governance Network and the International Organization of Securities Commissions, ways to improve corporate governance models worldwide.

19. Are there other suggestions for change to auditor reporting to narrow the “information gap” perceived by users or to improve the communicative value of the auditor’s report?

In considering several of the options presented in the CP, the AASB noted that in many cases there did not appear to be clear evidence that such options would meet the needs of financial statement users. As a result, it may not be possible for the IAASB to conclude whether or not to begin related standards projects. In reviewing responses to the CP, we suggest that the IAASB consider undertaking further research on the more promising options identified by stakeholders to provide evidence of the merits of such options. Further, as indicated in our response to question 1, we support and encourage the IAASB to continue its work to educate stakeholders about the nature and value of an audit.

We hope that these comments will be useful to the IAASB in finalizing the CP. If you have any questions or require additional information, please contact Greg Shields at (416) 204-3287.

Yours very truly,



Bruce Winter, FCA
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board Members
Philip Cowperthwaite, FCA

Appendix – Boundaries applied by the AASB in developing responses to questions in the Consultation Paper

Cost/benefit Considerations

- 1. The benefits of each proposed change to users are clearly identified and there is an appropriate value proposition when these benefits are considered in relation to expected costs.**

Costs would include those resulting from increased work effort by auditors, management and those charged with governance, including the ability to complete the financial reporting process within a reasonable time period.

Potential benefits (e.g., clarity and completeness in reporting to reduce the “expectations gap”) may be more difficult to measure than related costs. However, an effort should be made to identify explicit benefits to a wide range of users.

In weighing benefits versus costs, the types and numbers of users of the auditor’s report and financial statements will be a key consideration. However, this may need to be nuanced. For example, some evidence shows that analysts are significantly more likely to read the auditor’s report than the average investor (many of whom may never read the report). On the other hand, as the number of retail investors increases, there may be a cost associated with developing an auditor’s report that is difficult for the average investor to understand.

- 2. Any change should at least maintain, if not improve audit quality.**

Audit quality is a key to the financial reporting process. Changes in the form and content of the auditor’s report may result, for example, in the need for the auditor to focus more specifically on certain matters of relevance to users, which may result in improved audit quality. On the other hand, the matters to be reported on should not be so extensive as to dilute the auditor’s primary focus on detecting material misstatements of the financial statements should they exist.

Maintaining and communicating the respective responsibilities of the auditor, management and those charged with governance in an audit of the financial statements

- 3. The separate responsibilities of the auditor, management and those charged with governance should be maintained in the auditor reporting model. The roles and responsibilities of management and the auditor should be described in the auditor’s report.**

There are three distinct responsibilities for auditors, management and those charged with governance. An audit is conducted on the premise of a three-party relationship between the auditor, the accountable party and the user. All of these roles need to be respected and kept separate in order for the financial reporting process to operate effectively. Maintaining and communicating the distinct roles of management and the auditor is essential to reducing the “expectations gap”.

- 4. The auditor's responsibility (or absence of responsibility) for information that is perceived to be closely related to the financial statements should be clearly communicated.**

Users should be informed as to what has been done or not done by the auditor regarding information such as MD&A which users typically associate with financial statements. There is an expectation gap regarding auditor's association with such information that needs to be narrowed.

Other form and content issues

- 5. The auditor's report should have standardized form and content, but allow some customization through use of emphasis of matter and other matters paragraphs when fundamental to users' understanding.**

To facilitate consistent global audit reporting, the auditor's report should contain certain key elements that help users understand what has been audited and the outcome of the audit, and meet the expectations gap.

- 6. The auditor's report should not be too long, while containing the essential information the auditor is required to communicate.**

Anecdotal evidence suggests most readers have little patience with long documents. Changes will have little impact on the expectations gap if users do not read the report. Accordingly, changes need to balance the need to provide additional information with the dangers of providing too much information.

- 7. Informed users should be able to understand and use the information contained in the auditor's report.**

To reduce the expectations gap, the information in the auditor's report should be written in a language that users understand. A key goal should be to improve the quality of the auditor's report rather than simply the quantity of information it contains. Further, the objective of information contained in the auditor's report should be to meet users' needs.

The auditor's ability to provide assurance on the information

- 8. The information on which auditors are asked to provide assurance should be capable of being audited or reviewed in accordance with the applicable framework for assurance.**

The applicable assurance framework sets out specific parameters under which auditors and reviewers can provide assurance on information. For example, there needs to be: a three-party relationship, suitable criteria, sufficient appropriate evidence, the subject matter should be within the collective expertise of the practitioner and other persons performing the engagement, etc.