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8 November 2012

Mr David A. Brown C.M., Q.C.  
Chair, Enhancing Audit Quality Steering Group  
Canadian Public Accountability Board  
PO Box 90  
Toronto, Ontario M5H 3S5  
Canada

Dear David

Thank you very much for your letter of 5 October. Unfortunately I only received it on 26 October and was overseas on holiday at that time. For some reason I did not receive your letter of 12 September.

Therefore, given your deadline for comment of 16 November, we do not have time to refer your reports to the Financial Reporting Council (FRC) Audit Quality Committee for more detailed comment. However we do very much believe that it is desirable to maximise the consistency and compatibility of the auditing regulatory frameworks, and welcome the opportunity to provide comment on your work.

Mr Michael Coleman, Chairman of the FRC Audit Quality Committee; Ms Merran Kelsall, FRC Audit Quality Committee Member and Chairman of the Auditing and Assurance Standards Board; and I reviewed your three reports, which are very comprehensive and well researched. We would like to make the following points on your reports on behalf of the FRC:

- Your discussion of the difficulty of defining audit quality is insightful and it seems that it would be ideal if a definition of audit quality could be agreed to help improve communication on the issue.
  - A suggested definition discussed with Professor Arnold Schilder (Chair of the International Auditing and Assurance Standards Board (IAASB)) on his recent visit to Australia is "The likelihood that the audit process will identify when the financial report does not represent a true and fair view of the organisation's financial position and performance and the likelihood that the auditor will clearly represent this opinion".
  - This definition is based on a discussion I had with James Sylph (Executive Director, Professional Standards, IAASB) in October 2011 as well as the chart (p. 4) in the IAASB document (attached) *Audit Quality: An IAASB Perspective* (January 2011) stating that inputs such as auditing standards and auditor attributes (both processes and people) are important contributors to audit quality.

- We note that since issuing the thought piece on Audit Quality in January 2011, the IAASB has continued its work in this area, and anticipates issuing a more comprehensive document after its December 2012 Board meeting. This *Framework for Audit Quality* will include an expanded definition of a quality audit.
- We agree that there is a benefit in clarifying the roles of the auditor, management and the audit committee.
- We also recognise that going concern is one area where the expectations gap is significant and our submission to the IAASB on *Improving the Auditor's Report* (attached) offers suggestions to address this issue.
- We agree that the auditor reporting recommendations should only be applied to public interest entities and the definition of them needs to be clear. It may well be that some flexibility is required at the international level so that National Standards Setters can provide a clear definition in their own jurisdictions in the context of local laws and regulations. This would include consideration of which public sector entities would be included in the definition of public interest entities, recognising that at present audit reports in the public sector in Australia and Canada are more comprehensive than those in the private sector, and not likely to be recommended for change.
- Australia also has safeguards to maintain auditor independence and, after lengthy consultation with industry, the legislation was updated in June 2012, such that the FRC now has a strategic role in relation to audit quality (see attached article).
- In Australia the audit partner is required to sign the auditor's report.
- Like you, we are closely monitoring international developments in relation to proposals to strengthen regulation of auditors and improve auditor reporting given that we will be affected by decisions made by the European Union, the US Public Company Accounting Oversight Board and other organisations internationally.

Australia and Canada have much in common, but there are some interesting differences. In particular, while we both share a heritage as Commonwealth countries and we are both federations, our laws have developed in different ways. For example, over time the Australian States and the Commonwealth have agreed to develop a single securities regulator, the Australian Securities and Investments Commission (ASIC). ASIC regulates markets, companies and auditors and is responsible for conducting inspections of audit firms, including compliance with independence requirements and it also registers individual auditors. Australia's FRC has a specific role to provide strategic advice to Government in relation to audit quality.

We look forward to keeping in touch as you and others undertake research into the issue of audit quality.

Yours sincerely



Lynn Wood  
Chairman  
Financial Reporting Council





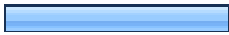




# Usefulness of Audit Reports for Retail Shareholders









**1. As an investor, on which of the following sources of information do you rely? (please select all that apply)**

		Response Percent	Response Count
1.1 Investment advisors		29.4%	115
1.2 Financial planners		13.6%	53
1.3 Brokers		39.4%	154
1.4 Auditor's Report		25.6%	100
1.5 Annual Report to shareholders		69.6%	272
1.6 Accountants		14.8%	58
<b>1.7 Newspapers</b>		<b>73.1%</b>	<b>286</b>
1.8 In-house investment teams		10.7%	42
1.9 None of the above		1.8%	7
1.10 Other please specify		23.8%	93
	Other (please specify)		137
		<b>answered question</b>	<b>391</b>
		<b>skipped question</b>	<b>1</b>



**2. You said that you rely on the Annual Report to Shareholders. As an investor, which of the following components of the Annual Report to Shareholders do you find most useful? (please select up to five options)**

		Response Percent	Response Count
2.1 Chairman's letter		60.5%	46
2.2 CEO's letter		67.1%	51
2.3 Corporate Governance Statement		11.8%	9
2.4 Remuneration Report		40.8%	31
2.5 Director's Report		38.2%	29
<b>2.6 Financial Statements</b>		<b>89.5%</b>	<b>68</b>
2.7 Auditor's Report		27.6%	21
2.8 None of the above		1.3%	1
2.9 Other (please specify)		5.3%	4
	Other (please specify)		5
<b>answered question</b>			<b>76</b>
<b>skipped question</b>			<b>316</b>








**3. You said that you find the financial statements component of the annual report useful. Which of the following elements do you find most useful? (please select up to five options)**

		Response Percent	Response Count
3.1 Statement of Income		73.3%	11
3.2 Statement of Comprehensive Income		33.3%	5
3.3 Balance Sheet		66.7%	10
<b>3.4 Statement of Cash Flows</b>		<b>80.0%</b>	<b>12</b>
3.5 Statement of Changes in Equity		40.0%	6
3.6 Notes to the Financial Statemetns		40.0%	6
3.7 None of the above		0.0%	0
		<b>answered question</b>	<b>15</b>
		<b>skipped question</b>	<b>377</b>






**4. Does the auditor's report provide sufficient information to you about what the auditor is required to do?**

		Response Percent	Response Count
Yes		35.2%	109
<b>No</b>		<b>64.8%</b>	<b>201</b>
		<b>answered question</b>	<b>310</b>
		<b>skipped question</b>	<b>82</b>





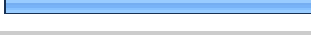
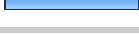

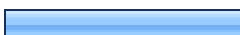

**5. Which of the following do you regard as the responsibility of the auditor? (please select all that apply)**

		<b>Response Percent</b>	<b>Response Count</b>
5.1 To ensure that the entity is financially 'healthy'		49.3%	176
<b>5.2 To form an opinion about whether the financial statements provide a true and fair representation of the results and financial position of the company</b>		<b>88.8%</b>	<b>317</b>
5.3 To ensure that the financial statements are 100% accurate		51.5%	184
5.4 To ensure that the financial statements are generally correct		37.5%	134
5.5 To form an opinion that financial statements are prepared according to the relevant accounting standards		75.6%	270
5.6 None of the above		0.3%	1
5.7 Other (please specify)		8.7%	31
	Other (please specify)		52
	<b>answered question</b>		<b>357</b>
	<b>skipped question</b>		<b>35</b>



**6. As an investor, where would it be of value to you to find standardised material describing the auditor's, management's and director's responsibility? (please select all that apply)**

		Response Percent	Response Count
6.1 In a appendix to the Annual Report to Shareholders		64.0%	226
6.2 On a website		36.8%	130
6.3 In the auditor's report		39.1%	138
6.4 In some other accessible location (please specify)		5.1%	18
6.5 None of the above		5.1%	18
	Other (please specify)		21
<b>answered question</b>			<b>353</b>
<b>skipped question</b>			<b>39</b>

**7. As an investor, which of the following concepts used in relation to the auditor's report do you understand? (please select all that apply)**





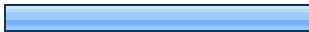



		Response Percent	Response Count
7.1 Reasonable assurance		42.3%	151
7.2 Materiality		37.3%	133
<b>7.3 Audit Opinion</b>		<b>60.2%</b>	<b>215</b>
7.4 Emphasis of matter		13.2%	47
7.5 Going concern		52.4%	187
7.6 Areas of significant audit effort		22.7%	81
7.7 Areas of significant auditor judgement		28.0%	100
7.8 Matters of audit significance		40.1%	143
7.9 None of the above		17.1%	61
<b>answered question</b>			<b>357</b>
<b>skipped question</b>			<b>35</b>

**8. Would it be of value to relocate the audit opinion to the beginning of the auditor's report?**



		Response Percent	Response Count
Yes		75.5%	259
No		24.5%	84
<b>answered question</b>			<b>343</b>
<b>skipped question</b>			<b>49</b>








**9. As an investor, if the auditor's report provided additional commentary, which of the following areas would be valuable to you? (please select all that apply)**

		Response Percent	Response Count
9.1 Matters of audit significance, including areas of significant auditor judgement		73.9%	257
9.2 Areas of significant management judgement		56.0%	195
<b>9.3 Significant or unusual transactions</b>		<b>86.8%</b>	<b>302</b>
9.4 Difficult or contentious matters noted during the audit		84.8%	295
9.5 Other issues of significance related to the audit scope or strategy		52.6%	183
9.6 Matters disclosed in the Financial Accounts		52.6%	183
9.7 None of the above		1.7%	6
9.8 Other (please specify)		4.6%	16
	Other (please specify)		26
<b>answered question</b>			<b>348</b>
<b>skipped question</b>			<b>44</b>



**10. If additional commentary were included, auditor's reports are likely to be less standardised. Would you see any difficulties with this?**

		Response Percent	Response Count
Yes		17.0%	58
No		83.0%	284
<b>answered question</b>			<b>342</b>
<b>skipped question</b>			<b>50</b>

**11. Annual reports include a lot of information that is not included in the financial statements, for example the Directors Report, Chairman’s letter and CEO’s letter, Sustainability reports etc. Which of the following should be included in the auditor’s report? (please select all that apply)**

		Response Percent	Response Count
11.1 A conclusion about management’s use of the going concern assumption in the preparation of the financial statements		60.8%	206
<b>11.2 An explicit statement as to whether any material uncertainties in relation to going concern have been identified</b>		<b>87.3%</b>	<b>296</b>
11.3 A more detailed description of what the auditor has done		41.9%	142
11.4 Details of any other auditors in the audit process (eg firms in other countries )		36.6%	124
11.5 Commentary about work performed by the auditor on the other information that is included in the Annual Report that is not audited		50.7%	172
11.6 None of the above	<input type="checkbox"/>	4.4%	15
11.7 Other (please specify)	<input type="checkbox"/>	3.5%	12
	Other (please specify)		24
	<b>answered question</b>		<b>339</b>
	<b>skipped question</b>		<b>53</b>

**12. Is there any additional information that you would like to see included in the auditor's report?**

		Response Percent	Response Count
Yes		20.8%	67
No		79.2%	255
answered question			322
skipped question			70

**13. Please use the space provided to tell us what additional information you would like to see included.**

	Response Count
	71
answered question	71
skipped question	321

**14. Please use the space provided for any other comments about the value of the auditor's report.**

	Response Count
	103
answered question	103
skipped question	289









## 15. What is your age bracket?

		Response Percent	Response Count
15.1 Less than 20 years		0.0%	0
15.2 20-39 years		0.9%	3
15.3 40-54 years		8.5%	29
15.4 55 to 70 years		43.0%	147
<b>15.5 more than 70 years</b>		<b>45.9%</b>	<b>157</b>
15.6 Not disclosed		1.8%	6
<b>answered question</b>			<b>342</b>
<b>skipped question</b>			<b>50</b>


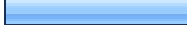








## 16. What is your gender?

		Response Percent	Response Count
Female		16.6%	57
<b>Male</b>		<b>82.5%</b>	<b>283</b>
Not disclosed		0.9%	3
<b>answered question</b>			<b>343</b>
<b>skipped question</b>			<b>49</b>





### 17. What is your current working status? (please select one)

		Response Percent	Response Count
17.1 Full-time employment		7.1%	24
17.2 Part-time employment		3.8%	13
17.3 Self-employed		10.0%	34
17.4 Unemployed		0.3%	1
17.5 Retired, but working part-time		14.1%	48
<b>17.6 Fully retired</b>		<b>60.0%</b>	<b>204</b>
17.7 Not disclosed		2.1%	7
17.8 Other (please specify)		2.6%	9
	Other (please specify)		18
<b>answered question</b>			<b>340</b>
<b>skipped question</b>			<b>52</b>

## 18. Where do you reside?

		Response Percent	Response Count
18.1 ACT		5.9%	20
<b>18.2 NSW</b>		<b>31.2%</b>	<b>106</b>
18.3 NT		0.6%	2
18.4 QLD		13.8%	47
18.5 SA		9.4%	32
18.6 TAS		2.1%	7
18.7 VIC		27.4%	93
18.8 WA		8.8%	30
18.9 Not disclosed		0.6%	2
18.10 Other (please specify)		0.3%	1
	Other (please specify)		4
		<b>answered question</b>	<b>340</b>
		<b>skipped question</b>	<b>52</b>

**19. Investors are classed differently to ensure that those in need of regulatory protection are entitled to disclosure and other consumer protections. What type of investor do you consider yourself? (please select one)**

		Response Percent	Response Count
18.1 Professional – Professional investors have extensive experience in using financial services or investing in financial products and include investors that have already satisfied certain licensing, registration or listing requirements, or having control of a substantial sum of money.		10.0%	34
<b>18.2 Retail – Retail investors have less experience in using financial services or investing in financial products. Retail investors tend to be those who invest for their personal account rather than for any other company or organisation.</b>		<b>81.2%</b>	<b>276</b>
18.3 Not disclosed		5.9%	20
18.4 Other (please specify)		2.9%	10
	Other (please specify)		18
	<b>answered question</b>		<b>340</b>
	<b>skipped question</b>		<b>52</b>