

James Gunn
Technical Director
IAASB
545 Fifth Avenue, 14. Floor
New York, New York 10017
USA

March 18, 2013

Dear Mr. Gunn,

IAASB Invitation to comment: The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon Proposed Consequential and Conforming Amendments to Other ISAs

The Danish Institute of Professional Accountants (FSR - danske revisorer) is pleased to accept your invitation to comment on a revised ISA 720 and conforming amendments.

In general, we support the initiative to revise ISA 720 but do not necessarily agree with what is achieved with the revised standard.

The main objective of the standard should, in our opinion, be that the auditor should ensure that the financial statements are not associated with misleading information that could undermine the financial statements and the auditor's opinion hereon. In our opinion, the objective should also cover the fundamental principles of the IESBA Code of Ethics – obliging a professional accountant “not to be knowingly associated with [...] other information where he believes that the information contains a materially false or misleading statement; [...]”.

In our opinion, the objective of the standard should be clearer. Without a proper and well-defined objective, this ED will increase the expectation gap and will do no good to the profession as a whole.

It is important that the users do not conceive that the auditor gives “assurance” on other information as part of the audit of financial statements. Due to the reporting requirements, it should be clearer that the work performed on other information as part of the audit of financial statements is limited. If assurance is to be given on other information, this should be in the form of a separate engagement.

More specifically, we disagree on two fundamental issues:

- The scoping of “other information” – “In documents” has been changed to “in or accompanying documents” to the financial statements and the audit report.

This seems unclear to us, without purpose and bound to lead to varying practices, thus increasing the expectation gap. Talking about

FSR – danske revisorer
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 9541
Konto nr. 2500102295

“accompanying documents” in general makes responsibility and scope of work unclear, and there is an obvious lack of suitable criteria. For example: What is relevant information? What kind of list of documents has to be considered by the auditor as other information?

In our opinion, the scope should be restricted to “in the same document, including information explicitly referred to herein”.

- In the revised ISA 720, the responsibility for other information covers information that is made publicly available after the date of the auditor’s report. In our opinion, the responsibilities for subsequent events/information should follow the requirements in ISA 560 as a new set of responsibilities will only lead to confusion for auditors and users alike. We do not see the purpose of this suggestion since other information after the auditor’s report date may be in scope but not reported on in the audit report, cf. paragraph 5A.

Furthermore, it is our opinion that the definition of inconsistency and material inconsistency needs more clarification as material inconsistency is defined as a subgroup of inconsistencies.

On a higher note, FSR – danske revisorer encourages the IAASB to consider whether the development of a limited assurance engagement in regard to other information should be the way forward rather than artificially adding auditor’s responsibilities related to other information to the audit engagement. We believe there are merits in having this as a separate engagement. A quick fix does not seem the right way forward. If stakeholders want assurance on other information, another engagement should be defined and a new standard developed in this regard. For instance, if the purpose of the IAASB is to give “assurance” on sustainability reports or on corporate governance reports, the IAASB should develop new standards for this and make this goal clear.

For further information on this letter, please contact FSR - danske revisorer, Lisbeth Kjersgaard, email: lik@fsr.dk, telephone: +45 33 69 10 53.

Yours faithfully,

FSR – danske revisorer

1. Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?

We do not see the need to strengthen the auditor's responsibilities with respect to other information, especially if the other information is information that is not included in the document containing the audited financial statements.

What is needed is more information to the users of the other information as to what the auditor's responsibility is in regard to this information. In our opinion, extending the responsibility does not necessarily result in benefits to the users as it is unclear what value this responsibility provides to the users of the information.

If assurance is to be given on other information, this should, in our opinion, be in the form of a separate assurance engagement.

2. Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate?

We do not see any reason to include accompanying other information. There is no meaningful way to make this operational, and, furthermore, the purpose of such an inclusion is vague.

It is difficult to see the point of including documents after the initial release of the audited financial statements since the reading and considering of this information cannot be reflected in the audit report.

Furthermore, some categories of information are excluded from the scope unless they are included in documents with information inside the scope. Excluded, cf. paragraph A13, are CSR, sustainability, diversity and equal opportunity, product responsibility, labour practices and working conditions and human rights reports when they are stand-alone. However, they are included if they are included in a report that contains, for instance, a CG statement, see paragraph A12 with examples of included types of other information.

In our view, this is bound to lead to uneven practices, and it will be difficult to communicate to users as well as auditors.

On the other hand, excluding XBRL from the scope seems odd in relation to the definition of relevant documents.

Finally, including other information on a website in the scope of the standard results in a number of risks due to the fact that the information is not necessarily clearly identifiable and fixed.

Side 4

3. Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?

Making a distinction from issuance of the audit report in ISA 560 is not warranted and will only lead to confusing auditors and users alike.

It is not obvious to us why IAASB deems it necessary to make this distinction. IAASB rejects the date of issuance because this would lead to the exclusion of more "other information" from the scope than if the initial release date is used.

This does not seem a valid point since other information made public after the initial release may be in the scope but not reported in the audit report, cf. paragraph 5A, and the same would be true of other information made public between the date of issuance and a following date of initial release. So for all practical reasons, the different dates have no impact on what is to be reported to the public by the auditor.

4. Do respondents agree that the limited circumstances in which a securities offering document would be in scope (e.g. initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?

In our opinion, securities offering should be scoped out altogether.

5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:

(a) Do respondents believe that the phrase "in light of the auditor's understanding of the entity and its environment acquired during the audit" is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor's understanding of the entity and its environment acquired during the course of the audit?

(b) Do respondents believe it is clear that the auditor's responsibilities include reading and considering the other information for consistency with the audited financial statements?

Side 5

No comments.

6. Do respondents agree that the definitions of terms of "inconsistency" including the concept of omissions and "a material inconsistency in the other information are appropriate?

Inconsistency is generic and very broad. Material inconsistency is defined as a subgroup where an inconsistency "could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole."

It seems to us that both concepts are vague. In our opinion, auditors may interpret inconsistency differently, leading to some auditors using too many resources on reading and considering other information in search of inconsistencies. The differentiation in the current ISA 720 seems clearer to us – "inconsistency" as opposed to "misstatement of fact". Inconsistency should be clearly linked to the auditor's understanding of the entity and the environment obtained during the course of the audit.

7. Do respondents believe that users of auditors' reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit?

It seems to us that it would be the case if the definition of inconsistency was changed accordingly, cf. our comments to question 6. Otherwise, the users may be confused as to the understanding of the concept.

8. Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor's work with respect to the other information? In particular:

(a) Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?

(b) Do respondents believe the categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate?

(c) Do respondents agree that the work effort is at the expected level and does not extend the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements?

Side 6

- a) We find a principle-based approach appropriate, and a procedure-based approach is not a realistic alternative.
- b) There is a problem in regard to scoping of relevant "remaining other information", cf. our comments to Question 2.
- c) We disagree as practices could be uneven resulting in an additional work effort that does not necessarily provide value to the users.

9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

Yes.

10. Do respondents believe it is clear in the proposed requirements what the auditor's response should be if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?

Yes, since the requirement is a simple reference to the continual and iterative character of an audit.

11. With respect to reporting:

(a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?

(b) Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?

The limitations should be communicated more clearly.

12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?

Yes.