

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

12 October 2012

Dear Mr. Gunn,

Re: IAASBs Invitation to Comment (ITC): Improving the Auditor's Report

Den norske Revisorforening (DnR) is pleased to provide you with its comments on the IAASB ITC on Improving the Auditor's Report.

DnR is the Norwegian Institute of Public Accountants representing the auditors approved by the Norwegian state to perform statutory audits in Norway.

DnR supports the efforts of the International Auditing and Assurance Standards Board (IAASB) to develop an auditor's report that better meets the informational needs of the users. However, care needs to be taken in this process not to move reporting responsibilities from management to the auditor, to give the auditors clear criteria's as to what to include in the auditor commentary section, and not to place unnecessary burdens on the entities resulting from increased costs of auditing.

For more detailed information on our views, see the responses below to the questions posed in the ITC.

Responses to "Questions for Respondents"

Overall Considerations

Question 1- Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?

DnR agrees that changes must be made to the auditor's report in order to make it more informative to the users. Our understanding is that the users of auditors' reports of large entities/PIEs require more information about the output of each audit, i.e. more specific, less boilerplate and more tailored information about key areas of the audit and the audited financial statements.

While considering changes to the auditor's report, the following should to be kept in mind:

- Management has the primarily responsibility to disclose information about the entity, in accordance with the applicable financial reporting framework. Further, that it is the auditor's responsibility to audit the information provided in the financial statement. Care needs to be taken not to make the auditor responsible for providing information required by the applicable financial reporting framework.
- Any gaps in information required by the current financial reporting framework and the needs or wishes of the users, should be filled by changing the requirements of the financial reporting framework.
- Changes to the auditor's report and the auditor's responsibility may change the audit risk and hence cause the cost of an audit to rise. This balance needs to be considered with care not to place burdens on the audited companies that outweigh the benefits to the users.

Question 2 - Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

Changes to the auditor's report should be coordination with the European Institutions to avoid different forms of auditor's reports. In addition, the information requirements of the financial reporting frameworks should be considered because changes to these frameworks may affect the need for changes in the auditor's report.

Auditor Commentary

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? (See paragraphs 35–64).

The Auditor Commentary concept may provide users with more of the information that they feel is lacking today, however, the criteria on what to report in the auditor commentary section needs to be precise. DnR believes that IAASB should consider using the criteria from the ISAs on "specific risks". These criteria are precise and we believe that reporting on them will provide the users with relevant information about the audit and areas of special interest in the financial statements.

DnR believes that explaining the significant risks and the work that has been done to mitigate these risks, will increase the value of the auditor's report. Care needs to be taken in developing the requirements on how to report in the auditor commentary section not to create an impression of a piecemeal opinion, rather than a pass/fail audit opinion.

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? (See paragraphs 43–50.)

As explained in our response to the previous question, DnR believes there is a need for more specific criteria as to which matters should be addressed in Auditor Commentary than what is

given in the current proposal from the IAASB. Not having clear criteria will lead to significant variations and less consistency. We also believe that without clear criteria the auditor may be put under pressure by management not to include matters in Auditor Commentary. Lacking information considered relevant by users may give rise to questioning the auditor's independence.

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? (See paragraphs 58–61.)

As explained in our responses to previous questions, DnR believes that there is a need to establish clear principle based criteria explaining how information should be in the auditor's report on the identified significant risks. We believe that for each significant risk, information should be given related to the nature of the significant risk, the audit approach chosen and key findings from the work performed. For information provided in the auditor commentary, clear references to the related disclosures in the financial statements should be provided.

Concerning risks that exist in all entities, for example some fraud risks, DnR believe that guidance should be given as to whether such risks should be included in the auditor commentary section.

DnR questions whether an Emphasis of Matter paragraph should continue to be used or if it should be replaced by an auditor commentary. We believe that matters to be emphasised would be more appropriately included in the auditor commentary section.

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? (See paragraphs 38 and 62–64.)

DnR believes that implementing the requirements proposed will increase the time, hence also the cost, spent by the auditor in preparing the auditor's report. Management and TCGW are also likely to spend more time in reviewing and discussing the specific wording and presentation of the auditor commentary. Nevertheless, we agree that the benefits generally outweigh the costs, and that this may be a necessary step in enhancing the communication process.

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? (See paragraphs 51–56.)

DnR supports IAASB's perspective to mandate Auditor Commentary to PIEs only. We believe that requiring auditor commentary for non-pies would put an unnecessary burden on the entities.

Question 9 - What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified? (See paragraphs 30–31.)

As already explained in our answers to previous questions, DnR does not support requirements resulting in the auditors having to provide information that ordinarily is management responsibility. Where financial reporting frameworks do not explicitly require disclosure of matters in relation to going concern issues and related material uncertainties, it is DnR's opinion that the requirements of the financial reporting frameworks should be adjusted.

In many circumstances management is reluctant to disclose material uncertainties because of the lack of requirements in law, regulation or standards to do so. Therefore, we think the preferable solution is that the auditor should only report along this line where material uncertainties have been identified

Question 10 - What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)

DnR does not have any specific comments on this question.

Clarifications and Transparency

Question 11 - Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81–86.)

DnR does not believe that expanding on the descriptions of the responsibilities in the auditor's report is appropriate. We believe that this information should be kept at a minimum and that the users of the auditor's report should be pointed somewhere else for further information on this, for example on a web page.

Question 12 - What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)

Disclosing the name of the engagement partner emphasises the personal responsibility of the engagement partner in addition to that of the audit firm, thus contributing trust to the audit and enhanced value to the auditor's report. This is already a requirement in Norway.

Question 13 - What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77–80.)

DnR does not believe that it is appropriate to disclose the involvement of other auditors as the auditor of a group bears the full responsibility for his report on the consolidated accounts.

Question 14 - What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report? (See paragraphs 83-84.)

DnR supports the proposal that any long standardized description of the auditor's responsibilities should not be part of the auditor's report.

Form and structure

Question 15 - What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17-20.)

DnR supports placing the opinion first in the auditor's report.

Question 16 - What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21-23 and 87-90.)

DnR believes that global consistency in auditors' reports and clear requirements on the contents is a clear advantage both for users of financial statements and for auditors/audit firms operating globally. We believe a principles-based structure for the auditor's report should be possible. This will support consistency and help users understand the auditor's report in an international environment.

Question 17 - What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)

DnR supports the use of one basic structure for all auditors' reports. National additional requirements are still, however, likely to continue to exist. The ISAs should allow for such additional information to be included in the auditor's report without specific requirements on these items etc. The possibility to form a user friendly report is more important than strict global consistency in these instances.

Question 18 - In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91-95.)

In DnR's opinion it is important to further explore the merits of differentiation between SME-audits and audits of PIEs/larger companies, including auditor reporting. The ITC shows signs of


this thinking, and we support the idea that Auditor Commentary should not be required in the audit report for SME audits. We believe, however, that the audit report requirements in ISA 700 should be revisited in order to get a simpler report.

Para 92 of the ITC states that input has suggested that the impediments to additional reporting requirements, namely cost, would likely exceed the value of the auditor's inclusion of additional information in the auditor's report. To a lesser extent, concern was expressed that a lengthy auditor's report, particularly if it primarily consists of standardized language, would be seen as unhelpful by users of SME financial statements. Para 93 states that feedback from the SMP Committee and others has indicated that differentiation in auditor reporting by, for example, size or type of entity alone is generally not appropriate, however, at the same time these stakeholders have supported the building blocks approach.

First of all we feel the need to express clear concern that the current lengthy auditor's report is indeed unhelpful, confusing and even depriving trust for users of SME accounts and the accounts of large companies for that matter. This is the unanimous feedback we get from members, our regulator, tax authorities and owners/investors. The experience we had with the former ISA 700 requirements was better. The division of the report into two parts is unfortunate. A lengthy description of responsibilities deprives trust in the auditor's report and is not suited to narrow the expectation gap. The ISAs' provisions on modifications and emphasis of matter, however, seem to work well also for SME audits.

Questions or comments regarding this letter should be directed to kai.morten.hagen@revisorforeningen.no.

Yours sincerely,
The Norwegian Institute of Public Accountants



Per Hanstad
CEO