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Dear Sir

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

FSR – danske revisorer (the Danish Institute of Professional Accountants) is pleased to accept your invitation to comment on Enhancing the Value of Auditor Reporting: Exploring Options for Change.

FSR – danske revisorer welcomes IAASB's initiative to investigate options to add value to Auditor Reporting.

Our comments are provided in the enclosed Appendix, Responses to Questions.

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Yours Sincerely,

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Appendix: Responses to Questions

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

We agree that the main issues related to auditor's reporting are the expectation and information gaps. In our opinion there is also an issue related to clear communication. When talking to users and practitioners they believe that audit reports are too technical and only serve to limit the auditors liability for the work performed. This issue is also related to the issues identified in the consultation paper as issues resulting in an expectation gap.

In regards to the information gap, we believe that no initiatives will be able to eliminate this gap. This should lead to caution and careful consideration of the need to balance costs for the reporting entities and benefits for the users who typically will be free riders and therefore biased towards requesting more information.

Question 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?

It should in our opinion be investigated what additional information **needs** users have so that they can make informed decisions about the entity being reported on. These needs should be evaluated and considered in the light of current financial reporting frameworks and information that entities are usually in possession of and can, therefore, make available to the public. It should then be evaluated if this additional information should be covered by the auditor's report. If the information can be provided by the entity being reported on, it should be evaluated if this information can be provided in generic form or if it has to be entity specific.

Generic information on responsibilities and work performed should in our opinion be made available on web pages that users can read if they want more information in regards to these subject matters. The information in the audit report can then be more entity specific and relevant to the users. When making entity specific information available, it should be carefully considered what type of relevant information that can be made available to the public. In our opinion, the audits should not provide information that the entity itself can and should report.

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

We are of the opinion that the changes are needed for audits of all types of entities including public sector audits and SMEs.

In our opinion, the users of information from listed entities have larger and more complex information needs than other users. This difference should in our

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opinion be reflected in the information reported by the entities and entity specific information provided in audit reports.

Question 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. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

In our opinion, the "opinion only report" combined with a reference to a website with the generic descriptions of management and auditor's responsibilities would be the option that would give most relevant information for the user as it focuses on the essential information needed and gives the possibility to get more information if this is needed about responsibilities and the conduct of the audit. Further, we find it worthwhile to create a glossary explaining in common day language the meaning of professional terms such as materiality, risk of material misstatement, internal control. The auditor's report could also in our opinion refer to this glossary.

Question 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 expectation gap? Do respondents have a view regarding whether the contents of these paragraphs should be expanded?

Since the four IAASB/ASB funded research projects all seem to point to a lack of decision relevance of the generic descriptions of the respective responsibilities, we find it unlikely that their removal would widen the expectation gap. Further, if they were removed to an accessible website, it would be possible to expand them, or to supplement them with glossaries explaining the terms used. These glossaries could be adjusted to fit individual jurisdictions to refer to legislation on companies, auditors and financial statements. This could mean that users might get a better understanding since the generic terms would no longer stand alone but be addressed to the specific setting of the jurisdiction.

Question 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?

It would be helpful to include such a description but as part of the generic descriptions of responsibilities on a website. It would make no sense to argue for an "opinion only report" and in this context require a new paragraph in a short form report.

In the EU an auditor is obliged to report on inconsistencies between the financial statements and a Management Discussion and Analysis (MD&A) or an Operating and Financial Review (OFR) in a specific section of the audit report. No specific examination is required – the auditor has to report findings based on his audit of the financial statements.

Where such an obligation exists, it has to be adhered to in a section clearly separated from the audit opinion.

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Question 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?

In general, we recommend that auditors should only communicate on these responsibilities in a specific section of the audit report when there are inconsistencies to be reported after the existing ISA 720. A responsibility to report in all circumstances would in our opinion result in confusion in cases where the auditor was also engaged to give an opinion on the same management information.

In the EU such a confusing situation exists when the auditor reports on MD&A in a specific ISAE 3000 engagement, and nevertheless has to report on inconsistencies by merely reading the MD&A in the specific section of the audit report, cf. above.

Question 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 do not recommend that the auditor should provide information on the specifics of an audit. In our opinion, this would damage the generic nature of an audit and lead to uneven practices and result in confusion among users.

By nature the audit report should only be changed when there are Modifications to the opinion, Emphasis of Matter Paragraphs and/or Other Matter Paragraphs.

Question 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 do not recommend such a model, cf. our answer to Question 8.

Question 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.

We strongly disagree with suggestions leading to auditors being obliged to give information about the entity and its financial reporting. This would clearly lead to blurring the responsibilities of those charged with governance/management vs. auditor, and it would create a risk of dueling information being provided.

We find that the existing requirements regarding Emphasis of Matter Paragraphs are sufficient and that they encompass a clear division of responsibilities that should by no means be blurred. If further auditor comments on the financial statements are to be required, they should be placed under this heading and be exact to rule out uneven practices.

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

If users find such a model helpful, we support such an initiative.

Question 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?

The main challenge is that such a model probably has to be based on law and regulation (or at least comply with or explain soft law on corporate governance), and, therefore, would be dependent on the support of a broad alliance among users and regulators. Perhaps boards and audit committees will oppose it on the ground of a presupposition of rising standards for legal liabilities. This could mean that the model has to be combined with regulation of board insurance.

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

No. This would clearly harm the independence of the auditor since the report of those charged with governance/the audit committee would to some extent be based on the auditor's reporting to those charged with governance, cf. ISA 260 and ISA 265. A circle reporting structure would harm the value of the model in the eyes of users.

Question 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 Section III, Part E.

We believe that the accountancy profession has a crucial role to play in ensuring the quality, reliability and credibility of all management information whether financial or non-financial. And we, therefore, support the development of specific assurance services as listed (Corporate governance, Enterprise-wide risk management, Internal controls and financial reporting processes, Key performance indicators).

Further, we find that the IAASB should explore the possibilities and risks of integrated reporting.

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

No comments.

Question 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.

No comments.

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Question 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.

No comments.

Question 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?

No comments.

Question 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?

No comments.