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Standards Board
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Enhancing the Value of Auditor Reporting: Exploring Options for Change

Far, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the consultation paper *Enhancing the Value of Auditor Reporting: Exploring Options for Change*. Far's response is presented in the four categories below.

1. Additional information in the auditor's report

Far believes that an auditor, by providing information about key areas of audit risk, could contribute substantially to the users' understanding of the financial statements and enhance the users' trust in and understanding of the audit quality. Providing additional information in this manner might significantly reduce the expectation gap as well as the information gap. Depending on an entity's intended users and its financial reporting framework, Far believes that additional information as discussed below is more suited for large entities.

Far believes that the French model with "Justifications of Assessments" in the auditor's report may serve as a starting point to develop a concept for reporting additional information about key areas of audit risk. Another starting point from a Swedish perspective would be the information that some auditors are already providing in their presentations at the annual general meeting of shareholders. Preferably, the information discussed in the auditor's report should refer to corresponding information in the financial statements.

In paragraph 62 of the consultation paper, five areas that might suit as additional information about the audit are discussed. Far has the following comments to the five areas:

Area 1-2:

"Key areas of risk of material misstatement..." and "Significant auditor judgement..." are areas of information with potential for presentation in the auditor's report in a way that would be helpful to users. However, much work is required to determine an appropriate way to select and present such information. For instance, there must be further discussion on how this information could be distinguished from opinions and conclusions over the financial statements as a whole. The additional information must not be perceived as opinions and conclusions on separate matters. Far would like to emphasise that any additional information in the auditor's report should be restricted to a discussion of key areas of audit risk. The auditor's report should not be used to add new information about the entity.

Area 3:

"The level of materiality applied..." Far believes that it is not possible to achieve a



comprehensible description over how materiality was applied during the audit for both financial and non-financial information within the format of an auditor's report. The complexity of materiality includes that materiality often needs to be revised during the audit process. Also, how materiality is applied to non-financial information in a specific assignment would be especially difficult to describe. In summary, Far does not believe that detailed information over materiality could be presented in a way that would be useful to the users of the auditor's report.

Area 4:

"The entities internal controls..." A description of the internal control in the auditor's report is, in Far's opinion, not suitable within the format of an auditor's report over financial statements. Such information would create an inconsistency between reporting in various entities. The inconsistency is due to the fact that the level of detailed information an auditor can provide over internal controls will vary considerably from audit to audit, depending on whether or not the auditor chose to rely on the controls by testing them.

Area 5:

"Areas of significant difficulty encountered and their resolution". Far believes that, except for key audit areas and the auditor's approach to them (see area 1-2), users have no use for information on the resolution of difficult areas in the audit.

Within the current format of the ISA auditor's report, the auditor's information about key areas of audit risks will be placed in the Emphasis of Matter Paragraph or in the Other Matter Paragraph. In connection with a possible project initiated by the IAASB, regarding extended information in the auditor's report, Far recommends that the IAASB considers how a user of an auditor's report understands the difference between the two types of matter paragraphs. Far believes that users of an auditor's report might not fully understand the intended difference between the two paragraphs.

Far recommends that the IAASB initiates a project to develop guidance on reporting additional information about key areas of audit risk.

2. Enhanced report from the Board/audit committee

Far is interested in the idea discussed in the consultation paper of an enhanced reporting from the Board/audit committee to the company's stakeholders. Far also believes that it might be helpful for the users if an auditor was to provide assurance on such a report. Far has, however, one objection. The consultation paper suggests in section D that the report from the Board/audit committee might include information on the oversight of the audit, based on a detailed report from the auditor. Far believes that the proper place to provide additional information on the audit is in the auditor's report, not in a report from the Board/audit committee.

3. Format of the auditor's report

Far is positive to a change in the format of the auditor's report. If technical language and the structure of the report blur the actual result of the audit, the reporting format is not user-friendly. Far believes that, if there is a demand for a change, it would probably be to move the standard paragraphs to a less prominent place than today, and allow more focus on the opinion and key areas of audit risk. In principle this could be achieved as suggested by illustration 2 in appendix 1 of the consultation paper. Far also believes that the trend towards

more integrated reporting in the financial statements might call for a new structure in the auditor's report.

Even though the present format of the auditor's report was designed with the purpose of decreasing the expectation gap, Far doubts that the present format has had the intended effect on the average user. Far therefore does not believe that a change of the format would increase the expectation gap, on the contrary.

4. Co-operation with the PCOAB

Far is at the same time also considering the PCOAB Concept Release on possible revisions to the PCOAB standards related to reports on audited financial statements. The subjects in the PCOAB's paper are very much the same as in the IAASB consultation paper. Far therefore urges the IAASB and the PCOAB to co-operate in these matters as much as possible.

Far

A handwritten signature in black ink, appearing to be 'Bo Hjalmarsson', written over a faint horizontal line.

Bo Hjalmarsson
Chairman Far Auditing Policy Group