

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

22 November 2013

Dear Mr. Gunn,

Re: IAASB Exposure Draft (ED) 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)'

DnR¹ is pleased to provide you with comments on the Exposure Draft (ED) 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)'.

DnR supports IAASBs and the EDs initiative to develop an auditor's report that better meets the request for additional information from the users. We note that significant progress has been made since the ITC on auditors reporting and note that some of our earlier concerns have been addressed.

Even though we support the ED in general, we highlight that the ED is not entirely consistent with the currently proposed EU legislation. We expect IAASB to monitor this process and do whatever is possible to ensure that the final ISA will be compatible with the EU legislation. Secondly, we encourage IAASB to develop additional guidance on how to select the KAM's to be included and more examples on how KAM's can be described in the auditor's report.

For more details, see the responses below to the questions posed in the ED.

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

¹ Den norske Revisorforening (The Norwegian Institute of Public Accountants) is the professional body for registered public accountants and state authorized public accountants in Norway. DnR represents the auditors approved by the Norwegian state to perform statutory audits in Norway.

Appendix: Responses to Questions

Key Audit Matters

Question 1. Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?

Yes, we believe that reporting on Key Audit Matters (KAM) will give additional useful information to the users of the auditor's report.

Question 2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?

Reporting on KAM will provide useful information to the users, but it will be a challenge for the auditors to determine which items to report as KAM's. The proposed requirement and application materials give guidelines on how to determine items that could be included as KAM's, but we feel there is a need for more guidance in the selection of the KAM's that are '*of most significance*'. You should consider supplementing the "*of most significance*" requirement to include considerations of the significance for the users of the financial statement. Not giving additional guidance on the selection process could lead to inconsistency among the auditors as it is not clear which judgment should be made in selecting the KAM's to be included in the auditors report.

Question 3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?

A concept that in our opinion should be used as a baseline when describing the individual KAM, is that the auditor cannot expand on a KAM about which the company has not provided information in the financial statements. The proposed requirements is not clear in this respect, and we feel that an explicit statement about this should be made in the standard.

Describing the KAM's in the auditor's report will for the auditors be a time consuming and difficult process. Further application material and examples on KAM descriptions are therefore needed. A further challenge with the KAM's descriptions, is to avoid writing them in a way that can give the impression of a piecemeal opinion. In the auditor's report it should be clear what the auditor's opinion is and what is descriptions of KAM's. This is a practical challenge for the auditor that cannot be solved only by the standards and the application material, but it is important to give the auditors enough guidance to avoid confusion and help the auditor's using their judgment in preparing the descriptions.

Question 4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

We feel that the example on «Valuation of Financial Instruments» is the most useful. This example manages to give the users a description of the matter and a description on how the

auditor responded to the issue in an informative way without giving additional information that is not included in the financial statements. The “revenue recognition” example will not help the users of the financial statement as it may leave an impression that fraud is a problem in the current financial statements.

Question 5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor’s ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

We agree that the KAM concept should only be required for listed entities and allowed on a voluntary basis for others. If the KAM-concept is to be applied on a voluntary basis, it should be agreed between the auditor and the client up front, as suggested, in the engagement letter.

Question 6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?

Yes, the standard should include a possibility that there may be no key audit matters to report. We believe that this option should be used in rare circumstances only as there most likely will be some KAM’s to report on each engagement.

(a) If so, do respondents agree with the proposed requirements addressing such circumstances?

Yes, we assess the requirements in paragraph 13 as an appropriate process that should be followed where the expectation of users for disclosure of KAM is not met.

(b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor’s responsibilities under proposed ISA 701 and the determination, in the auditor’s professional judgment, that there are no key audit matters to communicate?

Not applicable

Question 7. Do respondents agree that, when comparative financial information is presented, the auditor’s communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

Yes, we agree that the auditor’s communication of KAMs should be limited to the audit of the most recent financial period.

Question 8. Do respondents agree with the IAASB’s decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

We agree with the decision made to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, as those concepts are meant to be used for different purposes.

However, we think further guidance should be given on the interactions between the concepts and also the order of which the items should be disclosed in the auditor's report.

Going Concern

Question 9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:

(a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?

In Norway we already have an assessment of management's going concern basis in the auditors report.

(b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))? In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

No specific comment

Question 10. What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

Our view is that such an explicit statement is unnecessary and may rather be misinterpreted than give value to the users.

Compliance with Independence and Other Relevant Ethical Requirements

Question 11. What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

We agree that the source(s) of independence and other relevant ethical requirements should be disclosed. Such disclosures need however to be described in a concise way. This is an area where misunderstandings and confusion could increase if the descriptions are too extensive and written in an "auditor language".

Disclosure of the Name of the Engagement Partner

Question 12. What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?

Disclosing the name of the engagement partner in the auditor's report has been practice in Norway for many years and we do not have any impediments against disclosing the name of the engagement partner in the auditor's report.

Other Improvements to Proposed ISA 700 (Revised)

Question 13. What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

We agree that the proposed changes to the description of the responsibilities represent improvements. In some jurisdictions responsibilities, both for management/those charged with governance and the auditors, is clearly defined by law. In those circumstances the descriptions should be kept to a bare minimum.

Question 14. What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?

DnR supports predictability and standardization of the ordering of the elements in the auditor's report. For this purpose we believe that the ordering of the elements should be mandated. The mandated ordering should be applied in all situations unless local law and regulations do not permit this ordering.