

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

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

FSR – danske revisorer the Danish Institute of Professional Accountants (FSR) is pleased to accept your invitation to comment on Improving the Auditor's Reporting.

We recognize that initiatives are necessary due to the massive political pressure. Under these circumstances we find it paramount that the profession is positive and brings as much serious content as possible into the process. FSR-danske revisorer fully supports initiatives that will lead to more user friendly, relevant and informative auditors' communication. In this respect, we welcome this IAASB project as FSR – danske revisorer believes that a global solution for auditor's reports is preferable and most beneficial to investors and other users.

We have based our comments on the comment letter prepared by the Federation of European Accountants (FEE). We are in general supportive of FEE's comment letter. We have in the responses to the different questions indicated when we are in agreement with FEE and included additional comments that mitigate and supplement FEE's response. We hope this approach will help the IAASB consider our comments.

FSR- danske revisorer believes that it is important that the IAASB considers the following in further detail:

- The interaction between reporting to the public in the public external auditor's report (ISA 700) and to those charged with governance of the company in an internal private report (ISA 260).
- Information proposed given in the auditor's report that should be the responsibility of management.
- How to work with the International Accounting Standards Board (IASB) to improve financial reporting for users of financial information.
- The timing of the final revised ISA 700, so that it is ensured that it coincides with the the European Commission (EC)'s proposals regarding auditor reporting.

FSR – danske revisorer
Kronprinsessegade 8
DK - 1308 København K

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

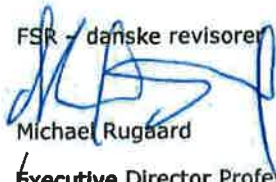
CVR. 55 09 72 16
Danske Bank
Reg. 9541
Konto nr. 2500102295

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

Side 2

Yours sincerely

FSR – danske revisorer



Michael Rugaard

Executive Director Professional Affairs

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?

We agree with the response given in FEE's comment letter.

In our opinion many of the suggested improvements are due to imperfect accounting standards not giving users relevant and understandable financial reporting. We, therefore, encourage the IAASB to work closely with IASB, with the aim to improve financial reporting.

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.

We agree with the response given in FEE's comment letter.

The only real alternative to the suggested model for auditor reporting is in our opinion a model where the Audit Committee reports on how it has overseen the audit of the entities' financial statements, and that the auditor specifically reports on this report prepared by the Audit Committee.

This model would, however, require relatively detailed regulation mandating Audit Committee's to report on its supervision of the audit. In our opinion it is not currently realistic that all countries that have PIE's and require the use of ISA's will develop consistent regulation in this regard.

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).

We agree with the response given in FEE's comment letter, as it is in our opinion relevant that the auditor gives more information about the work that the auditor actually has done, rather than the work the auditor has not done. The concept will in our opinion help improve the quality and consistency of audits and financial reporting.

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.)

Side 4

We agree with the response given in FEE's comment letter.

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.)

We agree with the response given in FEE's comment letter. FEE has noted, that Audit Commentary should include Comments on:

- The nature of each significant risk
- The audit approach undertaken in response to this significant risk, and
- The key findings from that audit work.

In our opinion, comments in regard to key findings from the audit work could result in additional entity specific information being given that is not disclosed in the financial statements. Information in the auditor commentary should in our opinion only include information that describes how our audit has been conducted, so that the reader of the audit report can gain a better understanding of what has been our focus when conducting the audit and how we specifically have addressed these areas of focus.

FEE also notes that the comments should also include significant deficiencies in internal financial controls identified by management and/or the auditor and whether they have been resolved (or not) and whether they have impacted the audit work performed. In our opinion comments in regards to significant deficiencies in internal controls should only include describes of how they have impacted our audit approach taking in response to the significant risks.

Giving additional information in regard to key findings and internal controls could result in a dilution of the overall opinion on the financial statements, which could result in users making inappropriate interpretations of our opinion on the

financial statements. This could in our opinion result in inappropriate decisions being made based on the audit financial statements.

Side 5

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.)

We agree with the response given in FEE's comment letter.

In our opinion, this will also most likely improve the dialog with TCWG in regard to the financial reporting and the audit hereof. Ultimately, this will result in improved financial reporting and audit quality.

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.)

We agree with the response given in FEE's comment letter.

Question 8 What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)

We agree with the response given in FEE's comment letter, except for that we believe that a statement that there is not a going concern issue should also be given in respect to non-PIE's.

We have noted that there is a need for improved requirements and guidance in the accounting and financial reporting standards, so that users' needs are fulfilled. This is in our opinion due to users misunderstanding the concept of

going concern, as it is not clear that the going concern basis **should** be used when the liquidity basis is not appropriate.

Side 6

Additionally it is, due to inadequate insight, not clear for the users when there is material uncertainty in regard to an entity's ability to continue as a going concern, resulting in that the going concern warning is perceived as coming too late compared to the users' needs.

In the example report the wording "based on our work performed" is used. This indicates a limited level of assurance, which is not consistent with the positive opinion on the financial statements. If we are indeed giving limited level of assurance in regards to going concern, we recommend the IAASB to consider integrating this as part of the opinion, so that our opinion becomes clearer for the user.

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.)

We agree with the response given in FEE's comment letter.

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.)

We agree with the response given in FEE's comment letter.

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.)

In our opinion, the additional descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are only in limited circumstances helpful to users' understanding of the nature and scope of an audit

as the descriptions are considered boilerplate. In our opinion, there is a need for additional education of the users for them to gain an understanding of the nature and scope of an audit. This could be done in plain language on a website managed by the national institute.

Side 7

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

We agree with the response given in FEE's comment letter.

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.)

We agree with the response given in FEE's comment letter.

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.)

We agree with the response given in FEE's comment letter.

There should, in our opinion, be an option to place the descriptions of both the managements and the auditors responsibilities on a Web page, as in some jurisdictions management gives a separate opinion on the financial statements, which includes descriptions of management's responsibilities.

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.)

We agree with the response given in FEE's comment letter.

Side 8

The opinion paragraph is in our opinion a little "heavy" to read, due to the identification of the elements that are included in the financial statements. This could be substituted by a plain reference to the relevant page numbers of the financial statements that have been audited.

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.)

We agree with the response given in FEE's comment letter.

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.)

We agree with the response given in FEE's comment letter.

The illustrative audit report includes emphasis of matter paragraphs in the audit commentary section of the report. As described in FEE's comment letter, the audit commentary should in our opinion only include descriptions of significant risks etc. As reflected in FEE's letter, we still believe that emphasis of matter paragraphs as required by ISA 706 should be given. In our opinion, these paragraphs should be included in the report after the opinion paragraph.

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.)

We agree with the response given in FEE's comment letter.