

Mr. James Gunn  
Technical Director  
IAASB  
545 Fifth Avenue, 14th Floor  
New York, New York 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)'**

FSR - danske revisorer is pleased to provide you with its comments on the Exposure Draft (ED) 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)'. FSR - danske revisorer welcomes the ED and most of the proposals included therein.

In general we support the proposal as it will help improve the quality of financial reporting and auditing.

Our main comments on the ED are summarized below:

**Risk of information overload**

We acknowledge that due to public demand, the currently proposed EU legislation and PCAOB proposal on audit reporting, the current format of the audit report will have to change and be more informative in regards to the conduct of the audit.

We do, however, fear that many users of the audit report, especially users with no audit background, will have difficulties interpreting the audit report and make appropriate decisions based on the information that is included in it. In our opinion it is not clear how users should use the information included in the proposed audit report to make appropriate decisions in relation to the entities financial reporting.

We therefore urge the IAASB to consider if the audit report can be made shorter and more concise and develop materials that can be used to educate users on reading the audit report so that they have a better basis of making decisions based on issued audit reports using the new format.

However, the fact that the opinion is placed at the beginning of the audit report helps mitigate some of the confusion and misunderstandings that could otherwise have resulted from the audit report.

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### **Going concern paragraph**

We fully support that there is explicit reporting on the auditor's conclusions in regards to going concern.

However, we believe that some of the descriptions that are proposed should be included in the financial statements as they describe what going concern means and the limitations associated with this principle. Entity specific information should not solely be provided in the audit report.

In our opinion the level of detail that is included in the going concern paragraph is too excessive when there are no specific going concern issues. In these situations the wording should be more direct, e.g. as follows:

*"Based on our audit of the consolidated financial statements we have not identified any material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly management's use of the going concern basis of accounting in the preparation of the Group's consolidated financial statements is appropriate"*

This will enable the user of the audit report to more clearly identify when there is a going concern issue that they should consider.

We also stress that the IAASB should put pressure on the IASB to develop clearer guidance as to when there is a material uncertainty, so that it is ensured that there is a more consistent reporting by entities and auditors on material uncertainties.

Furthermore, the proposed wording on responsibilities blurs the respective responsibilities of management and auditors and, therefore, needs to be reconsidered.

### **Key Audit Matters (KAM) paragraphs**

In our opinion there is a significant risk that KAM paragraphs will become boilerplate descriptions, as auditors will ensure that there is a form of consistency in the way these paragraphs are described. Consequently relevance for the users will be limited as entity specific information will be minimal, which also can be seen in the examples that are included in the exposure draft where a large part of the descriptions could be generic examples relevant to a number of entities. The IAASB should consider how this information can be made relevant to user's decisions without providing information about the entity that is not already disclosed. To ensure that the information is useful, entity specific and not the original source of information, we suggest that there should be a requirement that KAM's should refer to information disclosed by the entity in its financial statements.

In general auditors want clearer criteria (e.g. significant risks of most importance to users decisions) for when a KAM should be disclosed so that consistency is en-

sured and that undue pressure is not put on auditors by entities management on not to disclose a KAM due to its potentially sensitive nature. Additionally more guidance is needed to help determine what information should be included in the KAM descriptions. The information should have a consistent structure and provide information that is useful for user's decisions, for example by making reference to disclosures in the financial statements, explaining of why this is a KAM and the audit approach taken to address the KAM. If key audit findings were provided, this could be interpreted as separate opinions and provide information that has not been disclosed by the company in its financial statements. This could confuse the users as to what our opinion is on the financial statements and if we are providing information that should have been disclosed by management in the financial statements.

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The guidance as to when there is an issue that should be included as a KAM or as an EOM is in our opinion unclear, which therefore could be confusing for the auditors and users of the auditor's report. We suggest that this is addressed by mandating that auditors **either** shall provide KAM's or EOM's in the audit report and not both. The criteria for providing one or the other should be dependent on if the auditor is required to include KAM's in the auditor's report due to that the entity is listed or not.

If there is a significant risk related to the use of the going concern basis of accounting and related disclosures, there should be a clear requirement that they should be included as a KAM if the definition of a KAM is met, so that the auditor can disclose the audit approach taken in regards to these risks. However, we believe that the conclusions regarding the going concern basis of accounting and disclosures related to material uncertainties should be included in the going concern section of the auditor's report.

#### **Other matters**

In our view the opinion paragraph can be made more clear and direct by wording it as follows:

*We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group).*

*In our opinion, the accompanying consolidated financial statements on pages XX to XX present fairly, in all material respects, (or give a true and fair view of) the consolidated financial position of the Group as at December 31, 20X1, and (of) their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).*

This will make the identification more integrated and clearer for users as there is made reference to page numbers and not financial statement elements that can be confusing for users.

The heading on the basis for opinion paragraph should in our view be changed and renamed to "Conduct of the audit", so that there can be made a separate basis of opinion paragraph in those circumstances when the opinion is modified. This will ensure that these descriptions are clearly highlighted to the users of the audit report.

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Yours sincerely,

Lisbeth Kjersgaard

Chief Consultant  
State Authorized Public Accountant

Lars Kiertzner

Chief Consultant  
State Authorized Public Accountant

## **Appendix: Responses to Questions**

### **Key Audit Matters**

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 the introduction of KAM's in the auditor's report will enhance the usefulness of the auditor's report. We do have some concerns which are set out in our response to Questions 2 to 5.*

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?

*We feel that there is a need for clearer requirements supported by appropriate application material that better frame which identified significant risks should be reported as a KAM.*

*We suggest that this is accomplished by starting with indentified significant risks of material misstatements and from these risks select those that would be decision-useful and relevant to users of financial statements. In our opinion these KAM's should be related to risks that are disclosed in the financial statements as it would be these risks that would be most useful for users of audited financial statements.*

*Both the number of KAM's and the length of the KAM descriptions should be limited – in order to avoid boilerplate information and duplication of information already disclosed in the financial statements.*

*The standard should in our opinion state that the auditor cannot disclose more information in a KAM than what the entity has provided in the financial statements and related disclosures.*

*To mitigate the risk of giving information that has not been disclosed by the entity, there should in our opinion be a clear linkage between the financial statements and related disclosures, and the KAM.*

*This linkage would also:*

- Enhance the dialogue between auditors and TCWG, including audit committees;*
- Improve the financial reporting by companies.*

*We do however believe that practice will help guide auditors in determining what constitutes a KAM, as auditor will compare published audit reports with their own assessment of the guidance. This will most likely also help create a more consistent interpretation of what constitutes a significant risk.*

*If there is a significant risk related to the use of the going concern basis of accounting and related disclosures, there should be a clear requirement that they should be included as a KAM if the definition of a KAM is met, so that the auditor can disclose the audit approach taken in regards to these risks. This is especially relevant in cases where, following a considerable amount of audit work, the auditor concludes that there is no material uncertainty. If all KAM's should have a reference to the financial statements and related disclosures there is a need to create additional financial reporting requirements in this area, as there is currently no requirement to disclose risks related to going concern that have been mitigated. We suggest that the IAASB requests the IASB to consider this issue.*

*We believe that the conclusions regarding the going concern basis of accounting and disclosures related to material uncertainties should be included in the going concern section of the auditor's report.*

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?

*In our opinion further guidance is needed to give more direction as to what should be included in the descriptions of individual key audit matters.*

*In order **not** to provide additional information that is not already disclosed in the financial statements the following information should be included in the KAM descriptions:*

- A clear reference to the related disclosure in the financial statements.*
- The nature of the KAM;*
- The audit approach undertaken in response to this matter;*

*If key audit findings were provided in the description of the KAM, this could be interpreted as separate opinions and provide information that has not been disclosed by the company in its financial statements. This could confuse the users as to what our opinion is on the financial statements and if we are providing information that should have been disclosed by management in the financial statements.*

*As it is not clear how the KAM descriptions are relevant to decisions made by users based on the audited financial statements, and that such information should be included in the financial statements, the descriptions should be short and to the point as they otherwise will result in boilerplate descriptions and conflicting*

*information. Giving examples of such descriptions in an appendix to the standard could help guide auditors drafting KAM descriptions.*

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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.

*In light of our response to Question 2 and 3, we have the following comments to the proposed examples:*

*- The example on 'Acquisition of XYZ Business' is, in our opinion, without real decision usefulness for the users. It could be seen as an enhanced EOM;*

*- The example on 'Valuation of Financial Instruments' has a better structure. The references to the note included in the financial statements, the background information about the matter, the audit response and the conclusion on this matter are well presented. As this KAM includes information that has not been disclosed by the entity the description is problematic, as it can be interpreted that the auditor is disclosing information that is not disclosed in the financial statements;*

*- The example on 'Revenue Recognition Relating to Long-Term Contracts' is concerning, due to the statement on the side agreement: the example is likely to create a high degree of uncertainty for users, which does not serve any purpose ('[...] we did not find evidence of the existence of side agreements'). We do not support retention of this example in the final standard;*

*- The example on 'Goodwill', we would consider a good example even if it could become boilerplate.*

*In general the examples are not very entity specific as they very well could be boilerplate examples. To be relevant to decisions made by users of financial statements they should be more entity specific and in some examples shorter and more concise so that information in the financial statements is not just duplicated.*

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?

*In our opinion, KAM's should be disclosed in audit reports on listed entities or if mandated by local legislation, e.g. in regards to Public Interest Entities.*

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*In not mandated by legislation the General Assembly (the entities shareholders) should in our opinion be the body that considers and decides if KAM's should be included in the Audit report. This decision should not be made by the auditor.*

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, we agree that it is appropriate to include the possibility that the auditor may determine that there are no key audit matters to communicate. Nevertheless, we consider this should be applicable in rare cases only.*

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

*Yes, we agree that the requirements of paragraph 13 are necessary to ensure an appropriate process and communication where the expectation of users for disclosure of KAM's is not met. In this context, we also refer to our response to Question 2 first bullet of the first paragraph, as the word "most" in the definition of a KAM implies there will always be at least one such matter.*

(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*

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, when comparative financial information is presented, the auditor's communication of KAM's should be limited to the audit of the most recent financial period.*

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?



*The guidance as to when there is an issue that should be included as a KAM or as an EOM is in our opinion unclear, which therefore could be confusing for the auditors and users of the auditor's report. We suggest that this is addressed by mandating that auditors **either** shall provide KAM's or EOM's in the audit report and not both. The criteria for providing one or the other should be dependent on if the auditor is required to include KAM's in the auditor's report due to that the entity is listed or not.*

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### **Going Concern**

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?

(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.

*We fully support that there is explicit reporting on the auditor's conclusions in regards to going concern.*

*However we believe that some of the descriptions that are proposed should be included in the financial statements as they describe what going concern means and the limitations that are associated with this principle. Entity specific information should not solely be provided in the audit report.*

*In our opinion the level of detail that is included in the going concern paragraph is to excessive when there are no specific going concern issues. In these situations the wording should be more direct, e.g. as follows:*

*"Based on our audit of the consolidated financial statements we have not identified any material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly management's use of the going concern basis of accounting in the preparation of the Group's consolidated financial statements is appropriate"*

*This will enable the users of the audit report to more clearly identify when there is a going concern issue that they should consider.*

*We also stress that the IAASB should put pressure on the IASB to develop clearer guidance as to when there is a material uncertainty, so that it is ensured that there is more consistent reporting by entities and auditors on material uncertainties.*

*Furthermore, the proposed wording on responsibilities blurs the respective responsibilities of management and auditors and, therefore, needs to be reconsidered.*

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?

*We believe that this paragraph provides relevant information to the users.*

**Compliance with Independence and Other Relevant Ethical Requirements**

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?

*In the basis of opinion paragraph, there should only be a reference to IFAC's code of ethics and additional ethical requirements under [the country's] audit regulation, as it would be unclear for the users what it means in practice if there is made reference to a number of local specific requirements.*

*The ethical requirements that are required to be complied with could be described in the mandatory part of Auditor's Responsibilities for the Audit paragraph.*

**Disclosure of the Name of the Engagement Partner**

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?

*This is already the case in our jurisdiction.*

**Other Improvements to ISA 700 (revised)**

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?

Improved description of the responsibilities of the auditor and key features of the audit:

*The description of responsibilities is improved.*

Relocation to an appendix or reference to a website of most of the description of the responsibilities of the auditor and key features of the audit:

*Yes, we support this provision. Removing lengthy descriptive paragraphs to the extent permitted under EU legislation will improve readability of the audit report. The flexibility proposed in ISA 700 allows appropriate tailoring in particular jurisdictions or circumstances.*

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Reference to whom in the entity is responsible for overseeing the Company's financial reporting process:

*Yes, we support this reference: the disclosure is informative and its flexibility allows appropriate tailoring in particular jurisdictions or circumstances.*

With respect to other reporting responsibilities (no longer necessarily in a separate section but clearly differentiated)

*The reason advanced by the IAASB is acceptable ("the proposed new sections in the auditor's report relate to areas for which there may be additional reporting responsibilities [...] it is appropriate to allow additional flexibility for national standard setters to determine [...]"). We would therefore support such flexibility offered to national standard setters or legislators, but this flexibility should not extend beyond such authorized bodies.*

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?

*We support 'global standardization' of the auditor's report, including the ordering of the paragraphs.*