Dear Sir,

Re: **IAASB Invitation to Comment, Improving the Auditor’s Report**

The Institut des Réviseurs d’Entreprises/Instituut van de Bedrijfsrevisoren ("IRE-IBR") is pleased to have the opportunity to provide its comments on the Invitation to Comment, Improving the Auditor’s Report (hereinafter “ITC”) issued by the International Auditing and Assurance Standards Board (IAASB).

Please find below our detailed comments on the questions raised by the IAASB, thereby articulating our underlying reasoning in relation to these matters.

Sincerely,

[Signature]

Michel De Wolf
President
Response to specific questions

Overall considerations

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?

Overall, IRE-IBR fully supports the IAASB’s project to reform the current (clarified) ISA 700 in order to contribute to the change of any perception that the public may have according to which the auditor’s report lacks informative content. Several initiatives taken in the wake of the recent financial crisis have indicated a potential gap between the needs of the stakeholders and the information provided by the current auditor reporting. The recent economic crisis has highlighted the stakeholders’ focus on going concern and on the entity’s risk profile.

We favor providing information that responds to the users’ needs and appreciate that those needs may vary depending on the complexity of the entity, its role in the economy, and the stakeholders’ access to information. We believe that the primary role of the external auditor should be to express assurance to enhance the reliability and credibility of the information provided by management. We believe that more content in auditor communication will benefit all stakeholders and give rise to a less standardized language.

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 other? Explain your answer.

As explained above, IRE-IBR agrees with the IAASB’s initiative to come to a report that is more comprehensive to users and that is more informative.

However, we believe that care should be taken to ensure that a coordinated approach be followed which incorporates the various current initiatives relating to audit quality and transparency, taking into account aspects such as the timing of the different proposals to modify the auditor’s report.

IRE-IBR supports the “holistic” approach related to going concern, and acknowledges the need for coordination between the IAASB en the IASB, but also and more importantly some level of coordination between the wording used in the national GAAPs related to going concern which are not a mere copy-paste from the IFRSs (referring back to the national accounting setters and legislators). Indeed, a lack of coordination creates extra impediments on the finding of solutions on a short period of time (given the fact that the approval of an ED on ISA 700 is scheduled for mid 2013).

Other areas in addition to those included in the invitation to comment, are found where management and those charged with governance could provide additional information that the users might find relevant. The Belgian legal framework includes a specific certification by the auditor on the completeness and accuracy of financial and economic information communicated by management to employees’ representatives. Employees’ representatives consider such a certification to contribute to the enhancement of the
credibility of the information as well as to the quality of the dialogue between employer and employee with this respect.

We believe that the understanding of the auditor’s report could be further enhanced by stimulating the auditor to intervene at the general meetings of shareholders, in order to explain the meaning of its report and to answer to questions raised by the shareholders. Individual communication of auditors towards the stakeholders (e.g. at the shareholder’s meetings, the workers’ councils, etc.), could surely help to reduce the expectation gap. IRE-IBR also suggests that the auditor be present at the board meeting preceding the presentation of the financial statements to the general meeting of shareholders.

Furthermore, following the adoption of the ISAs in the Belgian context, which became mandatory for the audit of PIEs in 2012, IRE-IBR has proposed a new complementary standard on auditor report to include the Belgian legal specificities into the regulatory framework. This proposed complementary standard is yet to be approved by the High Council for Economic Professions and by the Minister of Economy. If this proposed complementary standard is approved as such, it will be foreseen that the competences of the statutory auditor can be extended, more particularly in the areas of internal control and risk management. A third optional part may then contain the conclusion of the statutory auditor on other specific engagements requested by management, e.g. a conclusion on the relevance of the internal control procedures and the risk management systems, the consistency of financial forecasting, performance indicators or other non-financial information. The inclusion of a conclusion on the relevance of internal control procedures and risk management procedures, mandatory or not, might also be an item to be further explored by the IAASB.

**Auditor Commentary**

3. Do you believe that 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?

IRE-IBR fully supports the efforts made by the IAASB to enhance the value of the auditor’s report and to provide increased information to the users of the auditor’s report about the entity’s financial situation. The role of the auditor’s report is to accompany the financial statements provided by the audited entity itself and add credibility to that information. The public as well as the audit committee receive information from numerous sources. We believe that the information provided in the auditor’s report should be as specific as possible and should aim at increasing the knowledge about the financial context of the audited entity.

IRE-IBR acknowledges that the use of Auditor commentary might provide more transparency as well as more pertinent information and therefore could respond to the needs and the expectations of the users. However, we believe different impediments could result from Auditor commentary as proposed today in the Invitation to Comment:

- Auditor commentary could on the one hand be seen by the auditor as a possibility to express an opinion and on the other hand may be conceived by users as a piecemeal opinion, which may ultimately affect the importance users give to the true and fair view opinion.
- Global consistency of an auditor’s reports is paramount in our view. However, the framework for an Auditor commentary section as proposed by the IAASB might affect the international consistency and comparability between the different auditor’s reports worldwide.

- We are not convinced that providing increased information with respect to audit procedures and related results will enhance the quality and relevance of the auditor reporting. On the contrary, we see a risk of an increase in the responsibility and liability of the auditor, in particular with respect to information that the auditor chooses not to communicate to the users in the auditor’s report because they are, in his professional judgment, not likely to be most important, while the users may have a different perception.

- Care should be taken not to blur the line between the financial-reporting responsibilities of the audited entity under the applicable financial reporting framework and the responsibilities of the auditor under the ISAs (and the applicable law and regulation). The provision of assurance in relation to historical financial information still remains with the preparer of this information, and it is the overall responsibility of the auditor to obtain sufficient and appropriate audit evidence on the fact that this information is free from any material misstatement. The obtained (reasonable) assurance is thereby expressed through the audit opinion within the auditor’s report. Therefore, instead of decreasing the expectation gap, including an Auditor commentary section might increase it.

- Providing additional information through the Auditor commentary will also necessitate the use of concepts, that will probably not be understood by the users. These concepts should then be explained, e.g. in the Auditor commentary itself.

Therefore, IRE-IBR believes other alternatives should be explored by the IAASB. Such an alternative could be found in maintaining the Emphasis of Matter Paragraph (EOM) as stipulated in ISA 760. An EOM is included when the auditor draws the users’ attention to matters that are, in the auditor’s judgment, not only “likely to be important” but are fundamental to the users’ understanding of the financial statements, e.g. an outstanding litigation. We believe a separate paragraph describing these matters could remain necessary. Although the current EOM in ISA 706 provides a useful framework, we suggest that, if this option is to be withheld, the IAASB redefines this concept in order to achieve that an EOM is used on a more regular basis than it is today, thus avoiding any boilerplate language.

Furthermore, we believe that the use of an EOM can only be justified provided that management and those charged with governance adequately disclose this information in the financial statements and that the addressed matters may not cause the audit opinion to be modified, as such matters are required to be referred to in the” Justification for Modified Opinion Paragraph”’. In this context, the IAASB should describe the areas in which such an EOMP should or can be used (e.g. outstanding litigation which we believe to be fundamental to the users’ understanding). Within this framework, the auditor should still be able to use his professional judgment.

Furthermore, the concept of Auditor commentary could be replaced by a paragraph on significant audit risks in a paragraph separately from the EOM. The proposed Auditor commentary only addresses matters that are, in the auditor’s professional judgment,
“likely to be most important”, whereas the significant audit risks aim at providing information on matters that are at the same time extremely probable, have a high potential impact on the financial statements and are inherently very complex. “Significant audit risks” is a concept already known under ISA and will allow the auditor to focus on specific areas in support of the overall audit opinion on the financial statements as a whole.

If such a significant audit risks paragraph is to be included, we believe it to be important to provide more information on this concept as the reader may be less familiar with the audit approach under the ISAs. It is therefore of the utmost importance that more guidance, both qualitatively and quantitatively, is given on the concept of significant audit risks (e.g. we suggest to develop a similar document as that developed by the IAASB on the scalability of the audit approach).

We strongly suggest that the IAASB weighs the benefits against the impediments of both alternatives (on the one hand the inclusion of an Auditor commentary section and the deletion of the EOM Paragraph and the Other Matters Paragraph, and on the other hand the conservation of an EOM Paragraph and the inclusion of a Paragraph on Significant Audit Risks).

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?

In our view, providing additional information should only be considered to the extent that stakeholders are convinced that it is relevant and useful to them, and improves the quality and reliability of the financial information to them. The benefits to stakeholders of this additional information should then be weighed against the cost of providing it. IRE-IBR believes that the matters to be addressed in the Auditor commentary (or, the paragraph on significant audit risks) can be left to the auditor’s judgment but guidance thereon in the standards is necessary.

In this context and based on the premise that the proposed terminology will be withheld, IRE-IBR suggests to make a clear distinction between the terms “material” (current ISA 320 terminology), “likely to be important” (proposed future terminology) and “fundamental” (current ISA 706 terminology). We believe that the future ISA 700 should include quantitative but also qualitative criteria of the areas to be dealt with in such a section on top of the use of professional judgment, in order for auditor’s reports to remain globally comparable (next to the use of professional judgment by the auditor, which, by definition, is not comparable in se).
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?

With reference to our answer to question 4, we believe that the inclusion of illustrative examples is necessary and recommended (e.g. the IAASB’s suggested example related to revenue recognition). Care should be taken to the fact that the matters to be addressed are not already included in the financial statement (e.g. information on goodwill).

We believe that expanded and more transparent information on matters such as risks and management approach to monitoring and addressing these or critical accounting policies and their impact on the financial information, as well as key judgments and assumptions, or management’s view on processes essential to financial reporting, would be relevant to the stakeholder. The existence of an adequate framework for the preparers would harmonize this information while reducing the expectation gap of the users. The credibility of this expanded information would be enhanced by requiring the auditor to consider this information during the audit.

In order to make the auditor’s report more entity specific, IRE-IBR favors providing information on the audit approach but only for significant audit risks which have been identified and addressed by the auditor in the course of the audit engagement. However, we do not support a detailed description of audit procedures and related results for other risks, since this will no doubt increase the responsibility and liability of the auditor. We do not believe that providing increased information in this respect about the audit itself will enhance the quality and relevance of the auditor reporting. On the contrary, again, we see a real risk of an increase in the expectation gap.

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?

We support an auditor’s report that is concise but we acknowledge that the suggested additional information should be granular enough so that the users can place this information in the appropriate context and understand the necessary nuances of such a communication. We believe it to be unlikely that such an information remains concise and readable while being granular enough to give a fair view of the work performed.

However, we are concerned about the incremental effort that would be required to make this information understandable by the users compared to the added value it will bring.

We are of the opinion that including Auditor commentary (or, a significant audit risk paragraph) in the auditor’s report could increase the costs and could result in an additional time investment needed in the financial reporting process. We also believe that such a paragraph could result in increased communication with the audit committee and might induce timing issues.
We are also concerned that this information, because of the varying complexity of each entity’s environment and varying expectations of users, will in the short-term be replaced by boiler-plate language due to risk management and duty of confidentiality considerations thus not providing the users with information that is more relevant for them.

For other implications and impediments, we refer to our answer to question 3.

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?

We defend the fact that the principle according to which an audit is an audit leads to the reduction of the expectation gap, the avoidance of the confusion and the promotional comparability. Although the needs of the users of the financial information and of the auditor’s report are different for listed companies and other companies, the expectation does not dependent on an entity’s size or status. Accordingly, changes aimed at reducing the expectation gap would be relevant to all companies. However, we acknowledge that there is a greater need for enhanced information from listed companies because the public at large is highly dependent on the information provided by the company. Any proposed change should reflect the scalability-principle on which the ISAs are based.

We believe that it should be left to the national standard setters to decide whether including an Auditor commentary section (or significant audit risks paragraph) is mandatory for only a specific kind of entity (e.g. PIEs).

**Going concern/Other information**

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?

IRE-IBR supports the inclusion of such a statement in the auditor’s report, which should be as entity specific as possible. The auditor is well placed to give a view regarding the conclusions drawn during the audit in respect of the management’s use of the going concern assumption.

We emphasize the fact that this statement should be based on the information adequately disclosed by management.

Also, we believe it to be important to highlight that future events or conditions may change the assumptions upon which this statement is based and may therefore also affect the entity’s ability to continue as a going concern. The wording “this statement is not a guarantee as to the Company’s ability to continue as a going concern” as proposed by the IAAASB doesn’t seem specific enough. Indeed, any absence of material uncertainties is not a guarantee as to the entity’s ability to continue as a going concern.
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?

We believe that the inclusion of a separate paragraph on the entity’s ability to continue as a going concern has an undeniable added value in the auditor’s report. Such a paragraph builds on the requirements under ISA 570 and explains that the auditor cannot express an opinion on the future viability of the audited entity.

However, we see a risk that including additional information about the auditor’s judgments and processes might conflict with the duty of confidentiality. Also, we believe that information overload and duplication of information already provided by the entity itself should be avoided. Additional information provided in the auditor’s report should aim at increasing the knowledge about the financial context of the audited entity.

Furthermore, we believe that the concept of “material uncertainty in relation to going concern” is generally not understood by the reader of the financial statements (unless he/she is familiar with IFRSs), and that this concept should be explained shortly. The use of a more direct wording (e.g. “no indications”) could be further explored by the IAASB.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

IRE-IBR agrees with this proposal, on the premise that it is made clear that this statement deals with any uncorrected (if remaining) material inconsistencies. We favor an additional statement that is limited to the description of the auditor’s responsibility related to other information in documents containing audited financial statements.

Furthermore, if such a statement is to be incorporated into the auditor’s report, we believe it is crucial that an overview is given of all the information considered by the auditor, in order not to create an expectation gap in the reader’s mind according to which the auditor has looked at all information available at any time during or after the audit.

IRE-IBR suggests to add that this paragraph merely incorporates factual information (existing or not), and that no opinion thereon is expressed in order to avoid that the user considers these procedures to be part of the regular audit process and of the subject matter information of the audit.

Clarification and transparency

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 any suggestions for other improvements to the description of the auditor’s responsibilities?

IRE-IBR supports an auditor’s report that is concise and believes that any change contemplated should build on this principle. We believe that areas of particular focus would be areas where the expectation gap is more prevalent such as the inherent limitations of an audit and the auditor’s responsibility with respect to fraud.
In order to reduce the expectation gap and facilitate the users understanding of the auditor’s report we suggest including a cross-reference to a guide to understanding/reading the auditor’s report or to websites where additional information can be found. Such guidance could include information aimed at reducing the expectation gap between the auditor’s report and the users.

Furthermore, we believe that communication and education are two essential elements that would improve the understanding of the respective responsibilities of management and the auditor, and of the scope of the audit. We believe that the IAASB could play a key role in developing the guidance as well as educational material.

12. What are your views on the value and the impediments of disclosing the name of the engagement partner?

Under Belgian law, the audit firm is required for every mandate to nominate a representative amongst its associates. Under the Belgian law of January 18, 2010, the permanent representative (registered auditor, natural person) of an audit firm is no longer automatically personally and jointly liable (on a civil and criminal basis) with the audit firm but (s)he is subject to ordinary law. (S)he remains liable on a disciplinary basis. The auditor’s report is mandatory signed by this permanent representative. No further impediments are seen in relation to disclosing the name of the engagement partner, as this is common practice in Belgium.

Therefore, we support IAASB’s suggestion to disclose the name of the engagement partner.

13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of the 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 the Auditor Commentary?

We believe the undivided responsibility of the engagement partner for the overall quality on each audit engagement to which that partner is assigned (ISA 600) to be a fundamental principle under ISA. Disclosing the names of the other auditors and their involvement would completely subvert this highly important principle.

As pointed out earlier, we support an auditor’s report that is concise. Disclosing the involvement of the other auditors therefore seems needlessly burdensome and brings no added value to users.

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?

In view of a concise auditor’s report, we agree that the paragraph relating to the responsibilities of the auditor is generic. Accordingly, IRE-IBR agrees with the fact that the boilerplate language related to the responsibilities of the auditor can be incorporated into e.g. an IFAC member body’s website.
Form and structure

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?

IRE-IBR favors giving the audit opinion a more prominent place in the auditor’s report, thereby clarifying as from the outset of the report what the final conclusion of the audit is. Another way to enhance the understanding of the auditor’s report could be to include the type of opinion in the title of the report in non-technical language as well as in the subtitle related to the opinion in the body of the auditor’s report.

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?

One of the essential features identified by the IAASB deals with the global comparability of ISA based auditor’s reports. When the ISAs were developed, internationally harmonised reports were encouraged. Global consistency of an auditor’s reports is paramount in our view, reminding of the general principle according to which “an audit is an audit”. We support the direction whereby the future auditor’s report will lead to the general acceptance of the fact that the ISAs are the applicable auditing standards while recognizing that some territory and entity specific information may need to complement the opinion expressed on the true and fair view of the audited financial statements.

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?

IRE-IBR fully supports the “building blocks” approach as referred to in the ITC. We believe that the IAASB should propose a principles-based structure for the auditor’s report, without restricting the auditor’s report’s flexibility.

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 be IAASB further take into account in approaching its standard-setting proposals?

As pointed out earlier, IRE-IBR supports the view according to which “an audit is an audit” and according to which auditing standards can be applied to entities of all sizes. However, the audit of a SME will have different areas of focus to those identified in the audit of a large public interest entity. The audit of a SME is likely to focus on risks that arise due to their relatively small size and evolving management structures. The audit of a SME is unlikely to be affected by complex accounting issues. In contrast, the audit of a large listed entity is more likely to focus on areas of risk arising from diversity in operations and complex transactions, which in turn raise more complex accounting issues.
We support the fact that the International Federation of Accountants (IFAC) issued relevant and useful Guidance, which clearly demonstrates how auditing standards can be applied to very small entities (see i.e. the Guide on “Using International Standards on Auditing in the Audits of Small-and Medium-sized Entities” issued by the Small and Medium Practices Committee of IFAC), and consequently shares the view that the same principle can be applied to the audit of SMEs.