

IAASB
Technical Director
Mr. James Gunn
545 Fifth Avenue
10017 New York
USA

Postbus 7984
1008 AD Amsterdam
Antonio Vivaldistraat 2-8
1083 HP Amsterdam
T 020 301 03 01
nba@nba.nl
www.nba.nl

Date	Subject	Our Ref	Attachment(s)	Direct dial
October 7, 2011	Auditor Reporting	KvH		+ 31 20-3010399

Dear Mr. Gunn,

The NBA¹ appreciates the opportunity to comment on the consultation paper “Enhancing the Value of Auditor Reporting: Exploring Options for Change.” We welcome the initiative to explore options for change. This letter contains an executive summary and an appendix with detailed comments.

Executive summary

In our Plan of Action dated November 2010 we have proposed to increase the relevance of the auditor’s report by including a mandatory ‘other matters’ paragraph. Furthermore we have proposed to broaden the scope of the audit to forward looking statements as mandatory made by the company relating to financing, cash flows, bank covenants, risk management and potential threats to the client’s business model.

On September 1, we organized a stakeholders’ dialogue with your consultation paper as starting point with input from stakeholders representing investors, prepares, politicians and auditors.

Outcomes of that dialogue were:

- Investors would like the auditor to expand his scope to all business risks, and not only to those influencing the financial statements.
- There was consensus that the Directors’ report including the MD&A, should be part of the scope of the audit and the auditor should report upon his findings when relevant. Furthermore, a majority concluded that the report of the supervisory board should also be part of the scope of work.
- The current situation, in which it is the responsibility of the entity, its management and supervisory board to report on the entities affairs, is endorsed.
- The auditor should only interfere in this process when the entity refuses to disclose relevant information.
- Investors would like the auditors to use the emphasis of matter paragraph and other matter paragraph more actively. There is a risk for boilerplate language when expanding the auditor’s report with paragraphs on risk, continuity, significant judgements etc. And therefore guidance in this respect is needed.
- The wording and structure of the auditor’s report should be clarified and be made more easily readable. There is consensus that the current wording is unclear, lacks relevant information and is seen as overly defensive. Stakeholders dislike the use of jargon and boilerplate language.

Nederlandse
Beroepsorganisatie
van Accountants



¹ The Dutch Professional Accountancy Association (Dutch acronym: NBA) is an alliance between NIVRA and NOvAA

- The meaning and impact of qualified opinions and emphasis of matter / other matter paragraphs should be better explained.
- Integrated reporting could be an enabler for auditors to broaden the scope of their audit to financial and non-financial information as disclosed in the integrated report. This could improve the auditor's relevance and increases the value of the auditor's opinion. We encourage IFAC and the IAASB to continue to work with others to provide an international framework for integrated reporting and simultaneously to prepare standards for providing assurance on integrated reporting.

Our conclusion and recommendation to the IAASB is that the text of the auditor's report should be made much clearer for the reader, preferably by starting with the conclusion and – where relevant -including a reference to critical issues which are important to the reader and explaining aspects of the audit approach that are critical to the understanding of the users. Furthermore, the scope of work should be expanded to the directors' report and other relevant additional information on the basis that the company reports and the auditor audits. Prerequisite for broadening the scope is the availability of suitable criteria and the ability to obtain sufficient evidence for limited or reasonable assurance.

The auditor should report his audit findings to those charged with governance, for instance the audit committee of the supervisory board. The supervisory board should reflect on these findings in the supervisory board report accompanying the financial statements. Where the auditor evaluates that relevant information to the users regarding the audit findings is missing, he should provide the information in an other matter paragraph.

Providing information regarding the audit approach tailored to the company, including the items mentioned in our Plan of Action, is relevant for certain stakeholders and therefore should be part of the auditors reporting to the stakeholders. How to implement this should be further explored with relevant stakeholder groups.

Stakeholders in the Netherlands prefer an international auditor's report that embraces these changes. Therefore we encourage the IAASB to be expeditious in its standard setting process with regards to auditors reporting. Nevertheless we foresee that we will pilot some changes to the auditor's report in the Netherlands focussing on the clarification of the auditor's report.

Closing remarks

Responses to your request for specific comments are provided in the appendix.

We trust to have informed you sufficiently. If you have any questions, please do not hesitate to contact Karin van Hulsen (k.vanhulsen@nba.nl).

Yours sincerely,
Signed by,

NBA

NBA
Dutch Ethics & Assurance Standards Board

Drs. R. Dekkers RA
Chairman

Prof. dr. Peter W.A. Eimers RA
Chairman

BACKGROUND

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

In our opinion, Section II correctly describes what we understand as the stakeholders' perceptions of auditors reporting today. With regard to these perceptions we have some observations that we would like to share with you.

Information gap

Stakeholders (including institutional investors) have confirmed our vision that the entity should be primarily in control about the information it shares with investors and other users of financial information. In that perspective the supervisory board should report upon the relevant findings of the auditor, as reported to them. When the auditor concludes that relevant findings are missing in the companies reporting he should, after discussing the issue with the supervisory board, disclose the information in an other matter paragraph in the auditor's report. Furthermore according to representatives of institutional investors in the Netherlands auditors should more frequently provide an emphasis of matter paragraph to attract the attention of the readers to certain relevant disclosures in the financial statements.

An important development related to closing the information gap is integrated reporting since it broadens and integrates the scope of financial reporting and condenses the information by providing the most relevant information. We therefore support integrated reporting initiatives such as International Integrated Reporting Committee is developing. As mentioned in our executive summary we encourage IFAC and the IAASB to continue to work with others to provide an international framework for integrated reporting and simultaneously to prepare standards for providing assurance on integrated reporting.

Furthermore, it is our opinion, based on the information gathered during our round table that the Directors' report including the MD&A should be part of the audit scope and the auditor's report. We accept that our perspectives will lead to discussions on the level of assurance provided but we encourage the IAASB to lead the debate, rather than waiting for governments and regulators to enforce changes in this direction. This is especially relevant since we learned that not all users have the same needs. For instance during the round table professional investors explained that the detailed information currently provided is relevant to them, therefore we feel that the current set of financial statements will keep its relevance.

Expectation gap

In general we support the statement that 'An audit is an audit'. Nevertheless there is a need to reassess the audit scope to respond to the needs of users. The fact that broadening the scope of an audit might lead to discussions regarding assurance levels, inherent limitations and consequently to liability issues is no reason not to respond to the needs of users and preparers. With this in mind we specifically mention the needs of SME's as compared to PIE entities. We expect the IAASB to guide the profession in challenging times where status quo is not an option.

We have learned during our discussions with the stakeholders that stakeholders such as the supervisory board and institutional investors encourage the auditor to be more transparent about his audit approach, others made it clear that the auditor should strive to regain public trust in the accounting profession. If this is established they simply want to rely on the work of the auditor and prefer a shortened auditor's report.

As set out in the executive summary we feel that further investigation is necessary to explore solutions to fulfil the different needs of these stakeholder groups. It is our opinion that the information on the audit approach could be provided in a form based on the French model, which in our understanding refers to relevant disclosure notes and explains the procedures followed to gather relevant audit evidence. Auditors should strive not to use boilerplate language, but report as specific as possible. Whether this information should be pro-

vided in the auditor's report or in a separate report and whether this information should be provided for all entities or only for public interest entities should be investigated further.

2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

We feel that the three issues mentioned below are equally important:

1. Content wise we believe that the scope of the audit (and related assurance services) should be broadened to the MD&A and to other relevant information to the users normally provided in the annual accounts.
2. The text and content of the extant auditor's report is perceived as unclear and irrelevant. For instance the information on the responsibilities of management and the auditors are perceived as defensive disclaimers. The information provided in the mentioned paragraphs is already known to most users. Therefore we suggest the following changes to the auditor's report:
 - Start with the conclusion paragraph immediately after the introduction paragraph;
 - Remove the paragraph focussing on the responsibilities of management and the auditor, this information can be provided in a sort of footnote or on a website;
 - Encourage the usage of emphasis of matter paragraphs and other matter paragraphs to focus the users attention to relevant disclosures and audit findings which are not disclosed by the supervisory board.
 - Use language that is understandable to the users and avoid auditor's jargons and boilerplate language.
 - Better explain the meaning and impact of qualifications to the auditor's report. A website might help to explain the general implications of qualifications

We are convinced that the above mentioned changes will be beneficial to all user groups.

3. Furthermore specific users groups might benefit from the auditor providing more detailed information on the audit procedures performed. Whether this information should be provided in the general auditor's report or in a specific report should be further investigated

3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

It is our opinion that changes are needed for audits of all types of entities. As described in our response to question 2 we are convinced that most of the proposed changes are beneficial to all users. This does not contradict that certain changes are only beneficial so certain user groups (for instance reporting on the audit approach specific to the client).

**EXPLORING OPTIONS FOR CHANGE
FORMAT AND STRUCTURE OF THE STANDARD AUDITOR'S REPORT**

4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

We are convinced that a structure as suggested in response to question 2 in which, the report starts with the opinion after the introduction, provides the responsibilities of management and the auditor in a sort of footnote or refers to a website, uses user friendly language is really beneficial to the users.

5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

No we do not see unintended consequences and do not foresee that it widens the expectation gap, in our view this would add to the relevance of the report.

Notwithstanding the above as discussed in our executive summary and in our responses to question 1 and 2 we believe that certain user groups would benefit from more detailed information on the client specific audit approach.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

No, we would not include such a statement which would equal the current paragraph on auditor's responsibilities. If this information is provided as part of the auditor's responsibilities and this is provided in a sort of footnote or on a referred website that we feel that providing this information is acceptable.

It is our opinion that providing detailed information on the entity specific audit approach to evaluating or providing assurance on other information, given our support for broadening the scope of the audit will be beneficial to certain stakeholder groups.

7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

N/A.

AUDITOR COMMENTARY ON MATTERS SIGNIFICANT TO USERS' UNDERSTANDING OF THE AUDITED FINANCIAL STATEMENTS, OR OF THE AUDIT

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

As discussed above we support providing more detailed information about the audit to certain stakeholders. Institutional investors in the Netherlands have informed us that this will be beneficial to their understanding of the assurance provided.

9. Respondents are asked for their reactions to the example of use of –justification of assessments in France, as a way to provide additional auditor commentary.

This could be part of the information provided to certain stakeholders (see question 8). Auditors should avoid boilerplate language in providing this information.

10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor’s report.

Providing information on the entities affairs and the findings of the auditor is the responsibility of management and those charged with governance. Only when management and those charged with governance fail to fulfil their responsibilities and reject to disclose relevant information the auditor should disclose this information in an other matter paragraph.

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

As discussed above we support a model in which those charged with governance or the audit committee provide insights based on the auditors findings. Contrary to the suggestion in diagram 3 the auditor should not specifically report on the corporate governance reporting unless the auditor has come to the conclusion, after discussing the issue with management and those charged with governance, that relevant information is missing. The auditor could use an other matter paragraph to provide this information.

12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

Those charged with governance might be reluctant to provide this information since they might see this as a management responsibility.

This should be part of a fundamental discussion on broadening the scope of the audit. Jurisdictional laws and regulations differ significantly and may result in challenges to a global approach.

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

Based on discussions with stakeholders in the Netherlands we have come to the conclusion that the auditor should not specifically report on the corporate governance reporting unless the auditor has come to the conclusion, after discussing the issue with management and those charged with governance, that relevant information is missing. The auditor could use an other matter paragraph to provide this information.

OTHER ASSURANCE OR RELATED SERVICES ON INFORMATION NOT WITHIN THE CURRENT SCOPE OF THE FINANCIAL STATEMENT AUDIT

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

We support broadening the scope of the audit (assurance services) to non-financial information provided in the annual accounts. This is based on the premise that suitable criteria are available.

With regard to certain aspects of forward looking information users should understand that the auditor cannot provide the same level of assurance as on the financial statements. In those situations the focus should be on the process and on the validity of assumptions.

15. What actions are necessary to influence further development of such assurance or related services?

Critical issues to be addressed include management's primary responsibility for entity-specific information, the expertise of the auditor in providing assurance and the degree of assurance that the auditor is able to provide based on the nature of the information.

Integrated reporting might be instrumental to influence further development of providing such assurance. We encourage IFAC and the IAASB to work together with others on developing an international framework on integrated reporting and on developing assurance services.

IMPLICATIONS OF CHANGE AND POTENTIAL IMPLEMENTATION CHALLENGES

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

The current public criticism on auditors is an excellent opportunity to discuss the level of comfort stakeholders request and on which information. We should encourage a public consultation as this might show the way forward in which the audit profession should develop itself into a new and relevant future.

We also refer to the consultation of PCAOB on the auditor's reporting model where four alternatives are presented which are similar to the options in the IAASB consultation. In the PCAOB concept release the following considerations are mentioned: effects on audit effort, effects on the auditor's relationships, effects on audit committee governance, liability considerations and confidentiality.

17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

No, SME's and their stakeholders might have different needs to PIEs.

18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

In our executive summary we have written the following:

Our conclusion and recommendation to the IAASB is that the text of the auditor's report should be made much clearer for the reader, preferably by starting with the conclusion and – where relevant -including a reference to critical issues which are

important to the reader and explaining aspects of the audit approach that are critical to the understanding of the users. Furthermore, the scope of work should be expanded to the directors' report and other relevant additional information on the basis that the company reports and the auditor audits. Prerequisite for broadening the scope is the availability of suitable criteria and the ability to obtain sufficient evidence for limited or reasonable assurance.

The auditor should report his audit findings to those charged with governance, for instance the audit committee of the supervisory board. The supervisory board should reflect on these findings in the supervisory board report accompanying the financial statements. Where the auditor evaluates that relevant information to the users regarding the audit findings is missing, he should provide the information in an other matter paragraph.

Providing information regarding the audit approach tailored to the company, including the items mentioned in our Plan of Action, is relevant for certain stakeholders and therefore should be part of the auditors reporting to the stakeholders. How to implement this should be further explored with relevant stakeholder groups.

We should bear in mind that auditor's reporting is the end of the process of the financial reporting chain and not the beginning. Fundamental deficiencies in the financial reporting cannot be addressed by means of enhanced auditor reporting. Co-operation with other parties involved is critical. Changes in the whole financial reporting chain might be necessary. Increased transparency in financial reporting might be a competitive advantage for entities.

Therefore, we encourage IAASB to collaborate with other parties involved including regulators and financial reporting standard setters and to have a link to other initiatives such as the PCAOB concept release (see above question 16), the FRC consultation on Effective Stewardship, the Green Papers of the European Commission on Corporate Governance and on Audit Policy, the integrated reporting initiative of the IIRC, the IOSCO consultation on auditor communication, etc..

19. Are there other suggestions for change to auditor reporting to narrow the "information gap" perceived by users or to improve the communicative value of the auditor's report?

We refer to our response to question 18.