

IAASB
Technical Director
Mr James Gunn
529 5th Avenue, 6th Floor
10017 New York
USA
jamesgunn@iaasb.org

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
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Dear Mr Gunn,

The NBA appreciates the opportunity to comment on the IAASB Exposure Draft "Reporting on Audited Financial Statements".

General remarks

NBA welcomes the IAASB proposals. The IAASB has made considerable progress in a short period of time on this project. In our opinion IAASB responds adequately to the call for more informative and more relevant auditor reporting. NBA also supports the proposal for field testing.

Clarity on the intentions

We have noticed that on reading the proposals of the IAASB, readers could interpret the intentions of the IAASB differently.

Some readers could interpret the IAASB proposals as focussing on strengthening users' confidence in the audit quality by providing insights in the work performed by the auditor on the key audit matters. Others could get the impression that the focus is on the findings of the auditor regarding the key audit matters and thereby contributing to the users understanding of all client's key matters.

If the latter is the intention, the question has to be answered whether users are entitled to all relevant information of the entity the auditor is aware of and which processes the auditor has to go through in deciding what to disclose.

We would expect the new approach to auditor reporting to recognize the different responsibilities of the auditor and the entity. The entity is responsible for disclosing entity specific matters in the financial statements. The auditor should, through performing a high quality audit and relevant reporting on the approach and outcome, enhance user confidence in the financial statements. At the same time we recognize that users are interested in all findings and views of the auditor.

We encourage the IAASB to provide more clarity on the intentions (and scope) of the proposals to avoid the creation of an expectation gap.

Nederlandse
Beroepsorganisatie
van Accountants



Governance

As mentioned in the previous paragraph the client is responsible for transparent reporting.

Therefore we believe that it is important for IAASB to encourage global and national organizations to implement requirements for audit committees or others charged with governance to disclose important issues discussed with the auditor. This model, as implemented by the UK Financial Reporting Council, guarantees that the reporting responsibilities of the entity and the auditor are respected. Such a process should ensure that the auditor takes into account the interests of all relevant stakeholders.

Convergence with the EU

As known the EU is also working on proposals to improve auditor reporting. These proposals will influence auditor reporting in the Netherlands. We are aware of IAASB's efforts to work together with the EU to align the EU and IAASB proposals. Notwithstanding these efforts, based on information gathered, we get the impression that the current EU proposals as debated between the EU, the parliament and the member states are not fully in line with the IAASB proposal.

Although we acknowledge that jurisdictional aspects might be the reasons for the differences we encourage the IAASB to keep working with the EU on proposals that converge as much as possible.

In our view the strives for an auditor's report that provides maximum value to the users through providing more relevant and specific information and avoid boilerplate language, should be balanced with the need for harmonization.

Implementation

In our opinion it is crucial to implement a more informative auditor's report as soon as possible. At the same time we acknowledge that it is important to have an international approach to auditor reporting. Therefore we encourage the IAASB to complete the project as soon as possible and to make sure that the Standards are finalized by the end of 2014.

Field testing

The NBA has started a project with the firms to field test the new auditor's report at listed entities. We feel that those field tests will provide a basis for further guidance on do's and don'ts with regards to writing Key Audit Matters (KAM). We will share our findings with the IAASB.

It is our intention to implement the standards, taking notice of the EU proposals, for periods Fiscal years 2014 already nationally. Therefore we hope that the results of the current IAASB field testing as noted in the exposure draft will be shared in due course by the IAASB.

Response to the questions

Key Audit Matters

1. Do users of audited financial statements believe 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?

We do. NBA expects KAM to be useful from a user perspective. Through increased transparency regarding the audit the report will become more informative for users. However, we are not yet convinced this will decrease the expectation and information gap for the users. Users might expect that the auditor reports about key matters of the company which could be different from the KAM reported. These are related, but not necessarily always the same.

At the same time we foresee that the reporting process might be delayed by introducing the new auditor's report. Management and those charged with governance might want to change their reporting based on the KAM disclosed by the auditor. Pursuant the auditor might want to adjust his report on the disclosures provided in the financial statements. This may lead to an iterative process that will take time to complete.

Furthermore, auditor's liability might become an issue as it will be difficult to determine whether the auditor has reported all relevant KAM. Users could have different expectations about the KAM to be reported. Sensitivity of the KAM could also play a role in the reporting thereof.

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 agree that it remains a matter of professional judgment. Nevertheless, we have some concerns about the criteria for selection of KAM. Especially in the first year, without any experience, it might be difficult to determine what are KAM and how many should be selected and in what order. Field testing behind closed doors is necessary to experiment. From field testing it will become clear whether more guidance is necessary.

As described under the general remarks the scope of the information disclosed in a KAM should be described clearly. The key matters relating to the company should be disclosed in the financial statements in order for them to give a 'true and fair view'. If a key matter has not been disclosed in the financial statements, this should be dealt with in the opinion. These items should not become the auditor's responsibility to report when management has not disclosed them. Then the auditor discloses entity specific original information as KAM. Confidentiality might be an issue in this case. Reporting requirements for those charged with governance might help to solve this problem.

We have some concerns about the discussions with management and those charged with governance. They could become less open and frank if they fear that sensitive issues need to be reported. We refer to the abovementioned general remarks about a sound corporate governance model.

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?

We believe that in general sufficient direction is proposed. The structure of KAM as described in ISA 701.10 should be clear and consistent. The description of the key findings should not contain a conclusion as users might consider this as piecemeal opinions.

We believe it would be helpful if guidance is provided on how descriptions should be developed if the source of a KAM has not been disclosed to avoid the inclusion of original information and yet meet the objective of providing greater transparency into the audit (see answer to question 2).

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.

The illustrative examples refer to complex judgmental situations in connection with the requirements of the financial reporting framework (key matters relating to the company). The examples are not consistently structured (see answer to question 3).

The information given in the examples should be in accordance with ISA701.10, and should comprise (a) an explanation of why the auditor considered the matter to be one of most significance in the audit, (b) its effect on the audit, and (c) a reference to the related disclosure(s), if any, in the financial statements. The first example (Goodwill) meets that requirements, and is therefore useful. The second example (Financial instruments) is less useful since it contains an implicit opinion on the model that has been used for the valuation of the financial instruments.

We feel it should be helpful to practitioners to have more examples regarding the audit procedures performed and the audit approach taken, especially when the auditor encountered significant difficulty during the audit or when significant changes to the auditor's planned approach were necessary. We also would appreciate an example of describing a KAM that has not been disclosed in the financial statements (see answer to question 2 and 3). Finally, we consider an example that quantifies adjusted misstatements valuable.

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

We agree. Although we agree with the approach we encourage the IAASB to re-evaluate the scope of the entities for which the reporting on KAM is obliged. We expect that in the EU and in particular in the Netherlands politicians and other users will request auditors to report KAM for all PIEs.

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?

We agree with the application guidance saying this is a rare circumstance there might not be any key audit matters to report on. It should be confirmed in the auditor's report that there are no KAM to report on and it should be explained why there are no KAM to report. There should be no possibility of avoidance through this route. Auditors should take their own responsibility for KAM, regardless of pressure or management disclosure.

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

Yes, relevant financial reporting comes first.

(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?

We agree. Overall we do not see the benefit of including KAM from prior years. The information is available to users; they can refer to prior reports. We agree with the practical challenges listed in paragraph 65 of the Explanatory Memorandum. A suggestion for inclusion in A9 of the proposed ISA 701 is that the auditor may find it beneficial to users to include a comment in the KAM regarding changes over prior year, but we do not feel this should be a requirement.

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

We agree, although we expect that these paragraphs will be rare. The concepts are necessary for audits where KAM are not disclosed. However, we wonder if users (and management understand or care about the differences). A voluntary Emphasis of Matter paragraph or Other Matter paragraph might be considered as KAM.

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?

We agree. Users may value such a statement. However it does not change the audit efforts but makes the current implicit conclusion explicit. Further this statement assumes that the going concern basis of accounting has been disclosed in the financial statements. If no disclosure in the financial statements is enforced by the applied accounting standards, this statement should be changed.

(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))?

Yes. However, we recommend the wording in paragraph A22 and corresponding paragraphs in the illustrative examples in the proposals to be revised as set out below. We believe this revised wording better reflects the principle that management is responsible for preparing the financial statements, which includes assessing if material uncertainties exist, and it is the auditor's responsibility to determine if they concur with this assessment.

Based on our audit of the financial statements of the Company taken as whole, we concur with management's conclusion that disclosure of a material uncertainty is not necessary ~~also have not identified such a material uncertainty....~~

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 wonder whether such reporting is clear for users and whether this will decrease the expectation and information gap. These statements might become 'boilerplate' text, especially when there is no going concern issue. Furthermore, there seems to be overlap in the different statements of management and the auditor. User validation should take place to find out whether the statements are clear.

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 agree with the explicit statement that the auditor cannot guarantee the entity's ability to continue as a going concern.

We would suggest clarifying the wording in paragraph A22 and corresponding paragraphs in the illustrative examples in the proposals to make it clear that the statement refers to the fact that the assessment of going concern may change due to future events or conditions that arise after the assessment has been completed. To make this point clear we suggest revising the wording as set out below.

However, because not all future events or conditions can be predicted, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Furthermore, management should report about their responsibilities. Management is responsible for the financial statements. The current text mixes up these responsibilities as it seems to place the management and the auditor at the same level of responsibilities.

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?

We doubt whether this will add value. Users should be asked whether this adds value. We have the impression that users assume that the auditor complies with the relevant ethical requirements. If this needs to be disclosed, the applied ethical requirements should be dis-

closed and this text should be concise in order to avoid lengthy lists of ethical requirements. For group audits, only the requirements of the group auditor should be disclosed for clarity purposes and to minimize the length of the report.

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?

In the Netherlands this is no issue; it is already required to disclose the name of the engagement partner.

Other Improvements to Proposed 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?

The description of responsibilities has been improved. We reiterate our issue of last year of locating all standardized text to an appendix or a website. The reference to who in the entity is responsible for overseeing the company's financial reporting process is informative. The other reporting responsibilities are clearly differentiated which is acceptable.

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?

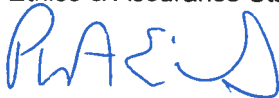
We agree with the order in the illustrative auditor's report. The order does not have to be mandated. We agree that the preferred order is shown. A different order is possible if the headings are the same. However, the report should always start with the opinion.

Closing remarks

We trust to have informed you sufficiently. If you have any questions, please do not hesitate to contact Jan Thijs Drupsteen (j.th.drupsteen@nba.nl).

Yours sincerely,

NBA
Dutch Ethics & Assurance Standards Board



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