

VNO-NCW RESPONSE

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Subject
Response on the ITC of the IAASB:
Improving Auditor's Report

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Dear Members of the International Auditing and Assurance Standards Board,

The Financial Reporting Policy Committee of the Confederation of Netherlands Industry and Employers (hereafter: VNO-NCW) appreciates the opportunity to respond on the Invitation to Comment (ITC) of the International Auditing and Assurance Standards Board (IAASB) which aims at improving the auditor's report.

VNO-NCW is the largest employers' organisation in the Netherlands. VNO-NCW represents the common interests of Dutch business, both at home and abroad and provides a variety of services for its members. Over 160 (branch) associations are members, representing more than 115,000 enterprises. They cover almost all sectors of the economy, including more than 80% of all medium-sized companies in the Netherlands and nearly all of the larger, corporate institutions, of which many of them are internationally operating and multi-listed companies.

VNO-NCW recognises the need to improve auditor's reports and is therefore pleased that the IAASB has taken the initiative to improve auditor's communication in an international way. However, VNO-NCW questions whether the IAASB proposals in the ITC will meet the intended goal.

There are a number of initiatives currently under way to improve readability and intelligibility of financial statements and annual reports more broadly, such as the International Accounting Standards Board's (IASB) proposed forum on improving disclosures and in Europe EFRAG and the UK Financial Reporting Council (FRC)'s discussion papers on a disclosure framework and the enhanced role of the audit committee set out in the FRC's recently-updated UK Corporate Governance Code, and

furthermore ESMA's consultation paper on materiality in financial statements. We welcome these efforts to streamline and simplify financial reporting principles in a way that, hopefully in the near future, only significant matters tailored to a company specific situation will be reported.

Improving the auditor's communication cannot be solved in isolation. We would therefore welcome the IAASB working together with the IASB and securities regulators to promote better, clearer, more focussed reporting by companies and by auditors. On auditor's reporting as such there are two important principles that we believe should be applied.

Firstly, it is the management's or non-executive director's role to be the "original provider" of the information on the company concerned where the auditor should not overtake this role. Secondly, the auditor should not duplicate information already provided by management or non-executive directors.

This is especially true for the proposed auditor conclusion on the appropriateness of managements' use of the going concern assumption in preparing the financial statements and the explicit statement as to whether material uncertainties in relation to going concern have been identified. These will present difficulties that in practice will not only lead to boiler-plate language but also to a list of material uncertainties that are likely to expand over time, because dropping certain items will only create further uncertainties and questions by users.

In VNO-NCW's opinion the proposals in the ITC could significantly alter the dynamics between management, non-executive directors and the auditor. We think the overarching objective of the proposed audit commentary to provide transparency on matters that are, in the auditor's judgement, likely to be most important to user's understanding of the audited financial statements – by providing users with an assist-tool in navigating through the financial reporting – is not the way to go.

An auditor is not a honorary advisor of (a group of) unknown users of the financial statements in a specific situation. And furthermore, when standard setters like the IASB already face difficulties in identifying in (the needs of) different user groups, the question is whether one could expect individual auditors to be able to identify those needs. We think, the auditor's report, in addition to his opinion, should not be more than a true and fair reflection of the performed audit activities tailored to the financial reporting of an audited company as a whole.

As a consequence, as the drafting of the proposed auditor commentary will be discussed between management, audit committee and (senior members of) the audit team we could at best foresee a significant drain on companies resources; at worst the discussions between management may become constrained for reluctance of all significant discussions being required in the audit report, for example because of litigation risks or competitive reasons. As a result boiler-plate language will inevitably be used.

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VNO-NCW hopes you will involve these comments in your further deliberations on improving auditor's reporting. We will be happy to discuss our comments with you in more detail, should you so wish.

Yours sincerely,

Martin Noordzij
Senior Advisor