

23 October 2012

To:

Mr. Schilder  
Chair of the International Auditing and Assurance Standards Board

**Re.: Comment letter from European Audit Regulators relating to IAASB's Invitation to Comment, *Improving the Auditor's Report***

Dear Mr. Schilder,

A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciates the opportunity to comment on the IAASB's ("Board") Invitation to Comment, *Improving the Auditor's Report* ("ITC"). The content of this letter has been discussed and agreed between audit regulators, representing the following countries:

- Czech Republic – Audit Public Oversight Council
- Estonia – Auditors Activities Oversight Council
- France – Haut Conseil du Commissariat aux Comptes
- Germany – Abschlussprüferaufsichtskommission
- Ireland – Irish Auditing & Accounting Supervisory Authority
- Lithuania – Authority of Audit and Accounting
- Luxembourg – Commission du Surveillance du Secteur Financier
- Malta – Accountancy Board
- the Netherlands – Netherlands Authority for the Financial Markets
- Norway – Finanstilsynet
- Portugal – Conselho Nacional de Supervisão de Auditoria
- Slovenia – Agency for Public Oversight of Auditing
- Spain – Instituto de Contabilidad y Auditoria de Cuentas
- Revisorsnämnden – Sweden
- Eidgenössische Revisionsaufsichtsbehörde – Switzerland

As European audit regulators we consider it important to pursue continuing improvement of standard setting for the audit profession. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above mentioned audit regulators; however, they are not intended to include all comments that might be provided by individual regulators and their respective jurisdictions.

The structure of this letter follows the five categories that the Board has used in the ITC.

**Overall considerations**

We support the Board's efforts to respond to the clear and justified demand for auditors to provide greater transparency about the audit of the financial statements. The proposed auditor's report should enhance the financial statements users' understanding of the audit process, especially with regard to significant risks of material misstatements in the financial statements, and will contribute to the responsibility and accountability of the auditor.

We concur with the Board's view that the auditor's report should continue to include a clear opinion on whether the financial statements give a true and fair view, but it should also clearly communicate the views of the auditor based on his audit of the financial statements.

Therefore, as the opinion paragraph is regarded as the most important part of the auditor's report, we welcome the Board's initiative to place this paragraph at the beginning of the audit report.

The primary responsibility for the financial statements lies with the entity; the auditor is responsible for the audit of the financial statements. While fully supporting increased auditor transparency, we continue to believe that those responsibilities should remain intact. This means that the auditor cannot 'repair' omissions or errors (including in disclosures) unless through issuing an appropriately modified opinion. The auditor should ensure that management provides such information, or he must do that as part of his justification for a modified auditor's report.

We feel that adding more information – amongst others via Auditor Commentary – in the auditor's report adds value to financial statements users. In addition, it will presumably also have a positive effect on the quality of the financial statements and the audit process.

In order for the auditor's report to be sufficiently informative and responsive to financial statements users' demands, we believe that Board should develop safeguards in order to ensure that:

- omissions in the financial statements (including omissions in disclosures) are not 'repaired' through the Auditor Commentary, also because the entity is primarily responsible for the preparation and presentation of the financial statements. Instead, it should result in appropriate modifications to the auditor's opinion;
- entity specific information in the auditor's reports is useful and relevant to the financial statements users and that boiler plate language is avoided. Consequently, it is necessary to develop suitable and enforceable criteria with appropriate guidance and examples;
- the scope of the auditor's report is clear, especially with regard to 'other information'.

Based on our discussions, we feel that the following information could also be considered for inclusion in the new auditor's report:

- a specific statement that the auditor complied with independence regulations and other ethical requirements with a reference to the respective requirements, including information on services provided;
- a summary of the auditor's risk analysis and audit strategy used to mitigate significant audit risks, including the risk of fraud. This would also encompass how the auditor maintains his sole responsibility when using the work of other auditors and experts, where relevant. In this regard, we note that the auditor should focus on financial statement risks, and not on general business risks unless relevant to the specific audit;
- information about materiality, as this helps financial statements users to better understand the assurance provided and the extent and depth of audit work done<sup>1</sup>;
- a statement on the consistency between the other information in the annual report and the financial statements.

We believe that standardized information increases the risk of boiler plate language without adding specific information to the financial statements or the audit thereof and should therefore be avoided as much as possible.

We would like to highlight that there are other initiatives for changing the auditor's report under discussion, f.i. the provisions of the European regulation for audit reporting. We favor consistency in the format of the report, while allowing jurisdictions to adapt the report to their national constraints. Accordingly, we think the building block approach is an appropriate solution.

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<sup>1</sup> The Haut Conseil du Commissariat aux Comptes takes exception to this point.

In addition, if it becomes apparent that some of the demands of the financial statements users would be better resolved by enhancing the accounting and/or disclosure standards, we suggest the Board and the International Accounting Standards Board (“IASB”) work together to improve also those standards.

### **Auditor Commentary**

As indicated earlier, we believe that the Auditor Commentary (“AC”) is a very appropriate means to inform the financial statements users about the audit of the financial statements. In addition, we believe that the inclusion of AC in the auditor’s report constitutes a positive incentive for management to enhance the quality of information disclosed in the financial statements.

AC should not replace information that should be included in the financial statements, which is the responsibility of the entity. AC should highlight matters that are important for the understanding of the audit of the financial statements and the auditor’s judgment. We feel that there should be room for judgment from the auditor about what to include in AC, but it should also be made clear in the standards, by creating appropriate and enforceable criteria and supportive guidance, that the auditor is supposed to comment on the aspects of his audit which are useful and relevant to the financial statements users, such as significant risks of material misstatements in the financial statements, or materiality<sup>2</sup>.

When reading the ITC, it occurs to us that many of the examples seem to refer to information in the financial statements, to which little to no information is added. Further, the AC is rather descriptive in nature, without the added value of the auditor’s views based on the audit work performed.

### **Going concern/other information**

We believe that it is helpful that the auditor includes a more specific statement about the going concern assumption in the financial statements than what is required in the current standards. This enhances the focus of the auditor on going concern issues, which would be a positive incentive, without changing his current responsibilities. We believe that a specific auditor’s statement on a management assumption is in line with the role of the auditor.

However, we believe that the paragraph on the work performed by the auditor to reach the going concern conclusion should only be included when this provides relevant information to the users of the report in the specific situation and to constitute an incentive to focus on this aspect during the audit, most notably in judgmental situations. Boilerplate or irrelevant information should be avoided.

We support the Board’s intent to explore whether a revision of ISA 570 *Going concern* is needed and to liaise with the IASB. This will contribute to specifying the extent of audit work to be done in relation to going concern, and the respective reporting.

Stating clearly in the report whether material inconsistencies have been found or not in other documents seems appropriate and adds value to the report. In this respect we note that including the scope of the documents that have been examined could also be a valuable element for users of this information, in order to be clear on what has been read and what has not been read by the auditor.

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<sup>2</sup> See also footnote 1.

## **Clarifications and Transparency**

Although we support the need for a clear distinction in the responsibilities between the auditor and the entity, we do not see added value in the proposed descriptions of the various responsibilities in the auditor's report. This is standardized information, and as such boiler plate without adding specific information to the audit of the financial statements.

Naming the engagement partner is already current practice in most of Europe. We favor this as it has a positive impact on the involvement and accountability of the engagement partner.

Including information on the use of other auditors and experts as part of the audit strategy, could contribute to better understand the audit. It should remain clear to the financial statements users that the auditor remains solely responsible for the audit opinion on the financial statements as a whole, and what he did to ensure this sole responsibility. As a consequence, information regarding the portion of work performed by other auditors or experts should not be misleading as to the division of responsibilities.

## **Form and Structure**

We concur with the proposed structure, subject to our comments on the standardized boilerplate paragraphs. Further, we clearly see a benefit in global consistency in the structure and format of auditor's reports.

We favor a consistent reporting format, while allowing jurisdictions the possibility to adapt the report to their national constraints. Accordingly, we think the building block approach is particularly appropriate.

Thank you for the opportunity to comment on the ITC. If you have any questions or would like to further discuss the matters noted in this letter, please contact Janine van Diggelen, head of the audit oversight division of the AFM in the Netherlands, at +31 20 797 2833.

Sincerely,

Audit regulator of:

Czech Republic  
Estonia  
France  
Germany  
Ireland  
Lithuania  
Luxembourg  
Malta  
the Netherlands  
Norway  
Portugal  
Slovenia  
Spain  
Sweden  
Switzerland