Dear Mr. Sylph,

We appreciate the opportunity to comment on Exposure Draft ISA 705 “Modifications to the Opinion in the Independent Auditor’s Report” and ISA 706 “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report”. This response is made on behalf of the Royal NIVRA.

Overall, we support the proposed ISA’s 705 and 706 and believe that it is both important and helpful to practitioners and will improve the quality and consistency of the auditors’ report worldwide. However, we have some comments with respect of the proposed standards, which are set out below. At first, we will answer the three questions mentioned in the Guide for Commentators in the explanatory memorandum on the Exposure Draft.

1. **Should the auditor use an emphasis of matter paragraph in situations of multiple uncertainties?**

We do not support the direction ISA 706 paragraph 6 is heading for. It is the responsibility of management to inform the users of the financial statements on unusual issues of fundamental importance. If the auditor disagrees with management on the fairness of the presentation and in his opinion the financial statements as a whole do not give a true and fair view in accordance with the applicable financial reporting framework, the auditor should express a modified opinion. Next to that we do not believe that a ‘should’ and a sentence like ‘in the auditor’s judgment’ can be combined in the same bold lettered paragraph. The use of an emphasis of matter paragraph is, in our view, highly judgmental and should be left to the discretion of the auditor. We do support a paragraph like this in grey lettering as guidance for the auditor stating that the auditor might consider an emphasis of matter paragraph.

We do support a bold lettering paragraph only in situations related to ‘going concern’. We suggest changing paragraph 11 from grey to bold lettering, but that should be I line with the requirements in ISA 570.
2. Is the use of sub-headings desirable in the auditors’ report?
For clarity reasons, we support the use of sub-headings in all the auditors’ reports, not only in a report containing an emphasis of matter paragraph.

3. Causes the use of the terms ‘significant uncertainty’ and ‘material uncertainty’ confusion?
In our view, the use of ‘significant’ and ‘material’ is confusing. It is not only hard to translate but it is even hard to understand exactly the difference between those two words. We do prefer to make a choice between those words and use it consistently.

4. Other comments.
ISA 705: “Modifications to the Opinion in the Independent Auditor’s Report”
- Paragraphs 6 and 7: “an applicable financial reporting framework”. For reasons of consistency with paragraphs 8 and 9a and the fact that only one financial reporting framework will be applied, we suggest to change the wording in should be “the applicable financial reporting framework”.
- Paragraphs 9a and 9b as well as 9c and 9d: those two couples of sub-paragraphs are each other opposites so the phrases (9a) “they do not require an adverse opinion” and (9b) “such that a qualified opinion is not adequate to disclose the misleading nature of the financial statements.” as well as (9c) “and do not require a disclaimer of opinion” are redundant.
- Paragraph 9, letter c: “therefore the financial statements are not misleading”, this phrase is incorrect, in case of uncertainty (not obtain sufficient and appropriate audit evidence) we can not conclude that the financial statements are misleading. Suggestion - skip phrase ‘therefore, the financial statements are not misleading’
- Paragraph 11: as long this is a bold paragraph we suggest making a reference to footnotes 2 and 3 on page 10.
- Paragraph 12, second bullet: “presentation and disclosure are not consistent with the auditor’s understanding of the entity” is rather detailed. Suggestion: rephrase into: (derived from bullet three) do not faithfully represent the underlying transactions and events.....
- Paragraph 12 third bullet: “including the note disclosures”, “note disclosures” is a new term and might be confusing. Suggestion: rephrase into “including the disclosures”
- Paragraph 16: “effect of material transactions and events” this could be interpreted that required disclosures on non material transaction (e.g. remuneration of directors) could be omitted and can not result in a disagreement with management. Suggestion: remove 'material' because all required disclosures (under the applicable framework) should be included or else will lead to a disagreement with management
- Paragraph 20: states in the last sentence that the auditor may resign from the audit if management does not remove the limitation of scope. In our view this sentence should be in bold lettering or at least the auditor should express an adverse opinion, where not permitted by law or regulation to resign.
• Paragraph 26/27/29/30/32: “ordinarily”
  Suggestion: remove the wordings 'ordinarily' this suggest that other opinions are possible, which is in conflict of the relevant bold paragraph and is not explained further (in which cases it is not ordinarily)

• Paragraph 31 should be brought in line with our preceding comment on paragraph 9.

• Paragraph 34, in our view, should be in bold lettering. It should be forbidden to express a piecemeal opinion.

• Paragraph 42, between brackets “or present fairly, in all material respects” to be changed in “or do not present fairly, in all material respects”

ISA 706 “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report”
• Paragraph 12: “Other circumstances in which the auditor includes an emphasis of matter paragraph when the criteria of paragraph 6 and 10 are met…..
  Suggestion: include the word “may”

Yours sincerely,

i.o.

P.J. Verkruijsse RE, RA