

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

International Audit and Assurance Standards Board  
Attn. Mr. James Gunn  
529 5th Avenue, 6th Floor  
10017 New York  
USA  
jamesgunn@iaasb.org

Date	Re	Our ref	Attachment
12 October 2012	ICT on Auditor's report	NBA-2012-1008	0

Direct dial nr  
020-3010302

Dear Mr. Gunn,

Nederlandse  
Beroepsorganisatie  
van Accountants

**Re: Invitation to comment on the proposals for Improving the Auditor's report**

The Nederlandse Beroepsorganisatie van Accountants (NBA), the standard setter for professional accountants in the Netherlands, appreciates the opportunity to comment on the proposals for Improving the Auditor's report. Our response is based on the outcome of extensive consultation of stakeholders in the Netherlands. This consultation included an internet survey, on the proposals which resulted in 235 responses. Further we organized a round table with attendance from preparers (VNO-NCW), users (Eumedion / VEB), oversight bodies (AFM) and FEE. We were very pleased that an IAASB-representative was able to participate in this round table.



First of all, we would like to compliment the IAASB on the progress made on the proposals for Improved auditor reporting. It is important that the profession and its standard setter provides solutions to respond to the call for more informative and more relevant auditors reporting. We therefore encourage the IAASB to stick to their proposed timelines for the project, and to publish an exposure draft in June 2013.

**General response**

In general the NBA supports the proposal of the IAASB. In our plan of action Lessons learned from the Credit Crunch (2010), the NBA proposed to implement more informative and relevant auditor's report including four new required paragraphs relating to:

- risk management;
- funding and client's status as a going concern;
- management estimates;

- key accounting principles.

We are glad that much of what we have proposed is included in the IAASB proposals for improved auditor reporting.

Based on our discussions with our various stakeholders and our own evaluation of the proposals there are a number of issues that we would like to bring specifically to your attention:

- All stakeholders involved seem to agree that the auditor providing (new) information on the entity conflicts with current corporate governance model. As a principle management and those charged with governance should provide relevant and informative information about the company and financial statements. During our roundtable there was consensus between users and preparers that the current IFRSs do not result in relevant information in all situations. Therefore we encourage the IAASB to urge the IASB to evaluate its disclosure requirements and evaluate if those requirements are still valid and appropriate in all situations, for example the justification of the going concern assumption. Interestingly, both users and preparers referred to the development of Integrated Reporting as the future basis for business reporting implicitly pointing out the erosion of the current system and content of financial reporting. In our view the relevance of the auditor's profession cannot be improved by improving the auditor's report only.
- We understand and support that from a public interest perspective there is a need to provide a statement on going concern and insights in eventually existing material weaknesses. We propose to include this statement in the opinion paragraph<sup>1</sup>. However, where an explicit statement on going concern could lead to more carefulness by auditors when signing the auditor's report, at the same time there is also concern that the statement might increase the expectation gap and seen as a guarantee that the entity does not file for bankruptcy in the year succeeding the balance sheet day. Therefore it is necessary to clarify the limitations of the work performed by the auditor. We propose therefore to mention going concern explicitly in the opinion paragraph and further explain the context of going concern in the auditor's commentary (client specific) or annex section (in general).
- Some stakeholders – especially preparers - are worried that auditor commentary will be experienced as providing marginal notes to the auditor's opinion. Therefore we would like to ask the IAASB to be crystal clear in the new standards that auditor commentary should substantiate the opinion.

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<sup>1</sup> For an example see Annex B to this letter.

- Users have explained that the auditor's report should be entity specific. In their opinion there is no need to repeat standardized wording in each auditor's report. For instance the proposed text on going concern is experienced as standardized text by certain users. It is our opinion that this request for relevant information is correct. Therefore we encourage the IAASB to evaluate the proposed wording of the auditor's report and diminish the standardized text even further.
- In general there is no need to require auditor commentary in auditor's reports accompanying the financial statements on Small and Medium sized entities although auditor's should not be prohibited and auditors might even be encouraged, to provide auditor commentary for SME's. In specific cases, for instance as currently described in ISA 706, auditor commentary should also be required for SME's. With regards to going concern the consensus seems to be that there is a need to provide this for entities of all sizes. The differences in requirements should not jeopardize the principle that an audit is an audit.
- Based on the outcome of our survey we have concluded that the concept of auditor commentary is also relevant for larger entities in the public sector. Therefore we propose the IAASB to encourage NSS to incorporate requirements for (larger) public sector entities to provide auditor commentary in the standards. This encouragement could be accompanied by application material to explain that auditor commentary is probably relevant for larger public sector entities.
- We stress the importance of the pass/fail model. Auditor's commentary should not be perceived as a qualification of the (unqualified) opinion. Therefore, we suggest IAASB to clarify this concept in the structure and wording of the report. We have included an example in annex A to this letter including some refinements to the proposed structure of the Auditor reporting by introducing a Part A containing the conclusion with an explicit statement on going concern, the report on the other information and the report on other legal and, regulatory requirements. Part B would include the auditor commentary. We feel that this commentary should be about the most important issues (max 5) and should be concise. Furthermore auditor's should strive to limit the report to two pages for reasons of reducible .

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Our detailed response to the questions in the ITC is provided in Annex A.

Yours sincerely,

Nederlandse Beroepsorganisatie van Accountants

Ruud Dekkers  
Co-Chair of the Board

Peter Eimers  
Chair of the Ethics & Assurance Standards Board

Enclosures:

Annex A: Response to the questions in the ITC

Annex B: Proposed refined structure for the auditor's report



## Annex A: Response to the questions in the ITC

### Overall Considerations

1. **Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?**

The ongoing discussions on the relevance of auditor reporting have proven that according to certain users of the auditor's report there is a need to enhance the relevance of auditor communication. We support this enhancement and are in general pleased with the IAASB proposals.

The discussions have also proven that others feel that the auditor's report as prescribed by ISA 700 is sufficient or should even be shortened. Especially text that is perceived as boiler-plate (for instance standardized text regarding the responsibilities of the auditors and management) could be provided in a different format.

Therefore it is difficult to conclude that the improvements are sufficient.

In our opinion the following is important in this respect:

- We support the strive to enhance the relevance and clarity of the auditor's report but we should not entangle this strive with the need for a high quality audit, the scope of the audit and the need for more extensive reporting by management and TCWG. This can only be realized by cooperation between the IASB and the IAASB.
- We believe that even after implementing the proposals of the IAASB the opinion should be based on the pass / fail model. Auditor commentary as proposed by the IAASB should substantiate the conclusion and should not constrain the opinion. Users who do not want to read the auditor commentary should be able to do so, and
- We support strict segregation of the entities responsibilities to provide information on the affairs of the entity and the responsibilities of the auditor to provide a conclusion and to justify this conclusion to provide insight in the audit process. The auditor's report should not become a tassel for financial statements that are too difficult to navigate and understand. We don't think it is the role of the auditor to help the reader to navigate through the financials. This is and should be the responsibility of the board.

The principals described above have led to the conclusion that we would like the IAASB to evaluate a refined structure of the proposed model as described in Annex B.

Further we would support a clearer split between the Entity specific information and the standardized text. This standardized text that for instance explains the scope of the audit in the Description of Respective Responsibilities of Management and, Those Charged with Governance, could be provided on a website or otherwise in an annex, but we do not expect users to

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read this information on each occasion and thus this information should not be part of the model audit report itself.

Only the really important issues should be disclosed in auditor commentary. Therefore we feel that 5 items should be the maximum, and auditors should be concise in what they report. When this is established and the auditor is concise in his reporting it should be possible to limit the auditor's report to two pages.

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2. **Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.**

In addition to our answer to the previous question we would like to raise the following.

In the Netherlands there is a growing interest for assurance on reports that combine for instance financials with sustainability. Those clients would like one report that provides a conclusion on the financial statements and a conclusion on the sustainability report. The IAASB might provide guidance on the preconditions for such reports. These preconditions could also be helpful in situations in which the client requests combined assurance on the financial statements and the directors report. Our survey clearly indicated that there is strong support for assurance on at least certain aspects of the directors report. We acknowledge that this leads to a scoping issue, but we feel that this cannot be separated from other aspects of the discussion on auditor reporting.

Further we have implemented industry-specific public management letters in the Netherlands, which provide the collective knowledge of professional accountants in the Netherlands on a certain sector / topic. Based on the outcome of our survey we have concluded that users value the information provided in these management letters. It helps them to better understand the business risks in a certain industry. Therefore, we emphasize that auditor's communications is more than only the auditor's report.

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#### **Auditor Commentary**

3. **Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not?**

Yes, we believe that the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users.

Safeguards should be implemented to prevent that auditor commentary becomes boilerplate which would diminish the relevance and the information value from auditor commentary to the users. We therefore experience an indispensable need for further commentary criteria as "open discussions" with clients about the "commentary" in the opinion can be very time consuming and costly. Especially while the content of the commentary will not influence the nature of the auditors' opinion.



Further we encourage a broader discussion involving preparers and users to manage the risk that auditors should feel obliged to disclose information not previously disclosed by the entity.

Stakeholders in the Netherlands, and especially preparers, expressed their vision that they would prefer a model in which those charged with governance have the responsibility to disclose relevant issues communicated to them by the auditors. Preparers expect that although the relevant information will be available to users, auditors will not be in a position to blur the line between the entities responsibilities to inform the public in the financial statements and the auditors responsibilities to form an opinion on this information. Therefore we feel that proposed regulation should support this model as an alternative.

P.O. Box 7984  
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4. **Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary?**

We agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance (criteria for instance on how to determine what is 'likely to be most important') in the standards to inform the auditor's judgment.

We feel that the auditor is best placed to decide which information, gathered during the audit, should be shared with the users.

Apart from guidance to inform the auditor's judgment it is important that the ISA provides guidance on the process to be followed to inform management and those charged with governance on the information the auditor will provide. Auditors should not publish auditor commentary without giving management and those charged with governance the opportunity to provide their vision on the information disclosed.

Further we learned from the response on our survey that the annual meeting of shareholders could provide guidance to the auditor on matters to be addressed.

Based on the examples provided in the ITC we conclude that the IAASB does not propose to provide auditor commentary or some other kind of disclosure on materiality. We believe that disclosures on materiality should not be included.

5. **Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary?**

We feel that it is important that there is consensus or at least mutual acceptance between preparers, users, regulators and auditors about the type of information that should be provided. If it is not clear for auditors what is expected they will be reluctant to provide information. The failure to reach mutual acceptance on the type of information to be provided might lead to

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exhausting discussions with senior management of entities on the information provided in the Auditor Commentary.

We believe that the following considerations are important to be discussed between the above mentioned parties:

- The purpose of the commentary and whether it is reasonable to assume that the matters addressed are likely to be "most important" to users' understanding of the audited f/s;
- The type of information provided by the auditor, in particular whether the information:
  - o is objective, fact-based and highlights matters disclosed in the f/s;
  - o continuous to have management and TCWG as the primary source of information and therefore does not result in the auditor being the primary source of information. IAASB believes this is inappropriate and we share this view;
  - o should be focused on understanding the financial statements or on understanding the audit performed.
- Whether certain information disclosed as part of auditor commentary could possibly lead users to question the auditor's opinion on the f/s as a whole and thus undermine the auditor's report.

6. **What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs?**

As discussed in our response to question 5 the implications might be influenced by the success on reaching mutual acceptance. If senior management and those charged with governance accept and understand the need to provide more informative information in the auditor's report, the impact will be limited (the information to be provided will probably be a sub-set of the information shared with those charged with governance).

If preparers do not see the added value of more informative auditor communication discussions might lead to increasing audit fees and might extend the reporting process.

7. **Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided?**

On one hand we agree that there is no added value in mandating auditor commentary for all SME and Public sector entities. Although we feel that there are public sector audits for which auditor commentary should be required (Ministries', large local governmental entities etc.). Given the differences in different jurisdiction we feel that NSS are best positioned to determine for which audits in the public sector Auditor Commentary should be required. The proposed standards should provide criteria that NSS could apply to determine for which public sector audits auditor commentary should be required.

On the other hand we regret the fact that the auditors primary product shall differ for different categories of clients. What is the truth in the maxim 'an audit is an audit' when the only visible product to users, the auditor's report differentiates.

P.O. Box 7984  
1008 AD Amsterdam  
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1083 HP Amsterdam  
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nba@nba.nl  
www.nba.nl

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## Going Concern / Other information

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

8. **What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)**

We fully understand that users and regulator in Europe and the US, given the current economic situation see merit in the auditor providing further information on going concern and as such we support providing this information. We therefore support the IAASB proposals to explicitly mention the going concern assumption in the auditor's report. Because of its importance we suggest to include the statement on going concern in the opinion paragraph.

Without compromising our support we would like to bring the following two issues to the attention of the IAASB:

- The background for requesting this information seems to be the idea that more focus of auditors in this area could prevent that auditors without proper warning sign off on financial statements of entities that enter bankruptcy shortly after. We doubt this effect as auditors already have a responsibility in assessing the going concern risk (ISA 570). We therefore suggest that the IAASB, as part of its implementation monitoring project examines if the current objectives of ISA 570 cover the legitimate expectations of users. If this isn't the case, we suggest to revisit ISA 570 and revise the standard as necessary. If the objectives cover the expectations it might be worthwhile to examine the need to provide further guidance. Furthermore nobody (including auditors) is capable to foresee events that are unknown and nevertheless occur. We therefore question whether extensive and explicit statements will improve the understanding of stakeholders. We refer to the risk of increasing the expectation gap as users might perceive this information as a guarantee of continuity.
- Further we cannot foresee the precedence of implementing prescribed auditor statements related to going concern as proposed by the IAASB. We could foresee that in the coming years users might request prescribed auditor statements in other areas (for instance on fraud or management remuneration). It is also possible that in better economic circumstances the statement on going concern is experienced as boilerplate. We therefore encourage the IAASB to implement a flexible mechanism for amending these prescribed auditor statements. The normal due process might not be flexible to respond effectively to market needs.

9. **What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified?**

Apart from the issues mentioned above we see no real impediments.

10. **What are your views on the value and impediments of the suggested auditor statement in relation to other information?**

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We support including the following information in the auditor's report with respect to other information:

- A short reference to the auditors responsibility to read<sup>2</sup> the other information and to communicate material inconsistencies between this information and the audited f/s;
- The titles of the documents containing the other information read;
- The fact that we have not audited the information and accordingly do not express an opinion on this information.

In the Netherlands providing such a statement with regard to the directors report is already required.

Further we expect, based on the outcome of our survey and other discussions with users, that auditors will be asked to expand their audit procedures and include parts of the director's report within the scope of the audit.

#### Clarifications and transparency

11. **Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities?**

It is worthwhile trying to lessen the expectation gap by better explaining the respective responsibilities of the auditor and other parties involved in preparing the financial statements and performing the audit, the inherent limitations of an audit and the way in which an audit is performed.

In our opinion this information has resemblance with a leaflet that needs to be provided with medicine. Nobody expects that this leaflet is read each time someone takes an aspirin. Therefore we do not support to provide the information in the body of the auditor's report. We refer to our response to question 14.

12. **What are your views on the value and impediments of disclosing the name of the engagement partner?**
- 

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

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<sup>2</sup> We are aware of the fact that the IAASB has approved an exposure draft of ISA 720, but abstract from the changes proposed in our response.

This is already required in the Dutch (EU) jurisdiction and it is appreciated.

From a conceptual perspective disclosing the partner name is the right thing to do. Auditing is a profession, and as such the outcome of an audit, notwithstanding all professional standards and firm policies - is influenced by the experience, skills and professional judgment of the engagement partner.

P.O. Box 7984  
1008 AD Amsterdam  
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1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

13. **What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary?**

We recognize that auditing is a people's business. Therefore it is difficult to deny that cultural differences and local experience could influence audit quality. Applying international (quality and ethics) standards diminish the impact, but we can understand why users would like to understand the involvement of others and the measures taken to guarantee audit quality. Therefore we can understand why certain users assume value in disclosing, as part of auditor commentary, the involvement of other auditors and more important the measures taken to guarantee audit quality in situations where this has been of significant impact on the audit approach.

At the same time we fully support the key principle of ISA 600 under which the group auditor has the sole responsibility of the group audit. Given this principle, from a conceptual perspective, we see no need to disclose the information in the auditor commentary. No matter which auditors were involved, the group auditor is fully responsible for the conduct of the audit.

In conclusion, we do not have a strong opinion about this issue.

If it is decided that such a disclosure should be included it should be required to be included in all relevant circumstances.

14. **What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report?**

As already explained in our response to question 11 we do not support including this standardized material in each audit report.

We support providing standardized information on a website or in an annex as an appropriate alternative to providing this information in the auditor's report.

An additional benefit of providing the information on a website is the opportunity to use modern technology to provide more, easier to understand and interactive information. For instance on a website it is possible to explain the concept of materiality in a comprehensible way and link this to relevant sections of financial reporting frameworks (for instance IFRS). Other issues that could be explained would be for instance reasonable assurance, the work on going concern, inherent limitations.

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Although we do not believe that this could close the expectation gap we feel that it is a worthwhile effort to try to decrease that gap.

P.O. Box 7984  
1008 AD Amsterdam  
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1083 HP Amsterdam  
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www.nba.nl

## Form and structure

15. What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users?

We fully support the proposal to start with the conclusion.

We are a bit worried that the supposed structure denies the relevance and importance of other reporting requirements. In many cases these reporting requirements are set by local legislators. Since the structure as proposed by the IAASB is based on the idea that the important messages (opinion) should be provided first we would support a structure in which the other reporting requirements are fulfilled before the auditor commentary and eventually standardized material is provided (See Annex B).

16. **What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used?**

We support the idea that consistency of auditor's reports is instrumental to global acceptance of audited financial statements. In 2007 when we adopted ISA 700 and changed the format of the auditor's report we underestimated the impact that this change had in the market place. When the first auditor's report based on the new format was published for a listed company, this actually led to questions.

Therefore the NBA is a strong supporter of implementing an audit report that is developed by the IAASB and is accepted and understood by the global markets.

At the same time we do not deny the fact that local / regional circumstances influence the information needs of the users in certain jurisdictions. Therefore local disclosure requirements will always influence local auditor reporting.

This is another reason why we suggest (Annex B) to split the core report (Part A) from the auditor commentary (Part B). The core report could be highly standardized based on the pass / fail model. The detailed reporting could provide further explanations within the boundaries of the pass / fail system as currently used.

17. **What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices?**

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Idealistically the format of the audit report should be standardized. This helps the financial markets and other users to more easily navigate through an auditor's report. Our survey has confirmed this view.

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1008 AD Amsterdam  
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nba@nba.nl  
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18. **In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals?**

We refer to annex B.

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## Annex B: Proposed refined structure for the auditor's report

### *Explanatory notes:*

The NBA is positive about the proposals of the IAASB but understands some of the criticism from auditors and other stakeholders. Therefore the NBA would like to suppose a refinement to the proposed structure.

These refinements do not influence the information to be provided to users, they only relate to the structure.

The idea is to split the auditor's report into part A and part B.

Part A would include the opinion, the statement on other information and other legal and regulatory reporting requirements. We suggest to implement the statement on going concern in the opinion explaining that the financial statements, prepared on the going concern basis provide a fair presentation (see example).

Part B would provide *Auditor Commentary to substantiate and explain the auditor's opinion*. This Auditor Commentary to Substantiate and explain the auditor's report should be required for PIE's based on the ISAs and should be encouraged for other audits of financial statements, based on the terms in the engagement letter. The engagement letter should describe the level of detail to be provided for voluntary auditor Commentary to Substantiate and explain the auditor's. The level of detail agreed upon should be disclosed in voluntary Auditor Justification and Explanation. When an auditor needs to provide an emphasis of matter or other matter this auditor commentary would become obligatory.

The standardized information could be provided on a website or in a leaflet.

In our opinion these refinements have as advantage that it maintains the pass fail model, standardizes the auditor's report while it can provide flexibility in the annex, does justice to the importance of other legal and regulatory requirements, better reflects the maxim that an audit is an audit which could be an advantage for SME's and further it limits standardized text to the minimum.

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
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www.nba.nl

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Part A

#### Report on the Financial Statements

##### Opinion

Based on our audit<sup>3</sup> performed in accordance with the International Standards on Auditing (ISAs) it is my/our opinion that the accompanying financial statements, which are prepared based on the going concern assumption, present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Company (the Company) as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

<<Disclosure of material uncertainties regarding the going concern assumption where applicable>>

##### Other Information

As part of our audit, we have read [*clearly identify the specific other information read, e.g., the Chairman's Statement, the Business Review, etc.*] contained in [*specify the document containing the other information, e.g., the annual report*], for the purpose of identifying whether there are material inconsistencies with the audited financial statements. Based upon reading it, we have not identified material inconsistencies between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

##### Report on Other Legal and Regulatory Requirements

<<*The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. Depending on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to integrate reporting on these matters with reporting as required by the ISAs (shown in the Report on the Financial Statements section).*>>

The engagement partner responsible for the audit resulting in this report is [name].

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

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<sup>3</sup> The scope of an ISA audit and the respective responsibilities of the auditor and the management and those charged with governance of the entity are **further described** on the website of the NBA, our professional body / in annex <ZZ>.



## PART B

### AUDITOR COMMENTARY TO SUBSTANTIATE AND EXPLAIN THE AUDITOR'S OPINION

#### Outstanding Litigation

The Company is exposed to various claims and contingencies in the normal course of business. We draw attention to Note 9, which describes the uncertainty related to an environmental claim regarding a business that was sold by the Company in 20X0.

#### Goodwill

The Company acquired a significant operation in [location](Note 3) with an attributable goodwill of XXX. Due to the current economic conditions as discussed on page X of Management Commentary, there is significant uncertainty embedded in the future cash flow projections used in the impairment calculation, which is complex and highly judgmental (see summary of significant accounting policies). No impairment was recognized, but Company has disclosed (see note XX) that a decline of Y% in the fair value of this unit would, all other things being equal, give rise to a material impairment of the goodwill in the future.

#### Valuation of Financial Instruments

Due to the significant measurement uncertainty associated with the valuation of structured financial instruments (see note 5), we determined that there was a high risk of material misstatement. As part of our response to this risk, our firm's valuation specialists developed an independent range for purposes of evaluating the reasonableness of management's fair value estimate, which was determined through its use of a model. Management's recorded amount fell within our range.

#### Audit Strategy Relating to the Recording of Revenue, Accounts Receivable and Cash Receipts

During the year, the Company implemented a new system to record revenue, accounts receivable, and cash receipts, which involved the introduction of new accounting software (See note xx). We discussed the effect of the new system implementation on our audit strategy with those charged with governance, including our consideration of the work that had been performed on the new system by the Company's internal audit function and adjusted our audit strategy based on our understanding of the design of the new system.

#### Involvement of Other Auditors

At our request, other auditors performed procedures on the financial information of certain subsidiaries to obtain audit evidence in support of our audit opinion. The work of audit firms with which we are affiliated constituted approximately [percentage of audit measured by, for example, audit hours] and of other non-affiliated audit firms constituted approximately [percentage of audit measured by, for example, audit hours] of our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Address][Date]

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

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## INFORMATION TO BE PROVIDED IN AN ANNEX OR ON A WEBSITE

*Apart from the material currently mentioned in the ITC as provided below we would expect more explanations on a website, some initial concepts of this information are provided after the IAASB proposals.*

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
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www.nba.nl

## DESCRIPTION OF RESPECTIVE RESPONSIBILITIES OF MANAGEMENT, [APPROPRIATE TITLE FOR THOSE CHARGED WITH GOVERNANCE], AND THE AUDITOR IN A FINANCIAL STATEMENT AUDIT

### Responsibility of Management and [Those Charged with Governance] for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [Those charged with governance] are responsible for overseeing the Company's financial reporting process.

### Going Concern

Under IFRSs, management is responsible for making an assessment of the Company's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Under IFRSs, the Company's financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so.

IFRSs also require that, when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management disclose those uncertainties in the financial statements.

### Auditor's Responsibility

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism through the planning and performing of the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

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error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit engagement and remain solely responsible for our audit opinion. [Bullet applicable for group audits only] [See paragraph 80].
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit, the significant audit findings, and any significant deficiencies in internal control that we identify during our audit. We also communicate with them regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence. [Last sentence for listed entities only].

#### **What do we do in an audit**

In an audit of financial statements we form an opinion as to whether the financial statements as a whole are free from material misstatement. In order to be able to form this opinion we gather reasonable assurance based on sufficient appropriate audit evidence. Auditors are required to be independent of the entity so that they are able to form their opinion with an objective state of mind.

#### **Material misstatement**

Misstatements can be the result of fraud or error. When the auditor supposes that misstatements are made intentionally he suspects fraud. Errors result in unintended misstatements. Misstatements can result from:

- incomplete data collection;
- incorrect data processing;
- decisions based on incorrect or misinterpreted facts;
- appliance of inappropriate accounting policies.

The auditor is not trying to find all misstatements. He focusses on material misstatements. Material misstatements can result from one large misstatements or from a number of smaller misstatements.

#### **Reasonable Assurance**

Reasonable assurance is a high but not absolute level of assurance. In most cases achieving reasonable assurance in an audit will lead to detection of all material misstatements, but there is no absolute guarantee. Since fraud normally includes an attempt to deceive people, including the auditor the risk of not detecting a material misstatement resulting from fraud will be higher than for a material misstatement due to an error.

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