



New auditor's report for public interest entities

Featuring additional information
about the auditor's activities


NBA

Version October 2014

© 2014 NBA

Niets uit deze uitgave mag worden verveelvoudigd, opgeslagen in een geautomatiseerd gegevensbestand of openbaar gemaakt in enige vorm of op enige wijze, hetzij door middel van druk, fotokopieën, microfilm of op welke andere wijze dan ook, zonder voorafgaande toestemming van de NBA.

October 2014

Table of contents

1	Introduction	4
2	Why a new auditor's report	5
3	Content new auditor's report	6
4	What are the consequences of the new auditor's report	7
5	Initial experiences with the new auditor's report	8
6	Closing remarks	9
	<i>Appendix</i> Example of independent auditor's report	10

01 | Introduction

When dealing with financial statements for 2014, auditors of public interest entities will use the accompanying auditor's report to provide additional information about the audit. Therefore, besides the opinion, the auditor's report will also address the performed audit procedures in the key audit matters section. This will come into effect due to (draft) Standard 702N¹. Auditors at other organisations can implement the new auditor's report on a voluntarily basis.

The auditor's report that accompanies financial statements serves an important public function. For instance, the auditor's report states whether the financial statements give a true and fair view of a company's results and the financial position. The public, stakeholders, politicians and audit professionals all want an extensive auditor's report that also addresses key audit matters.

This brochure is intended for users of auditor's reports, directors, internal supervisors and auditors, and briefly discusses the reason(s) for this new auditor's report and the main changes. Furthermore, the brochure deals with the most important consequences for directors, internal supervisors and auditors. An example of the new auditor's report has been included in the appendix of this brochure.

1 The Board of the NBA intends to include this draft Standard in the "NV COS" 2015 after consultation with members and other stakeholders in the fall of 2014.

02 | Why a new auditor's report

In the wake of the financial crisis, there was a call for more detailed auditor's reports. Besides stakeholders and politicians, this call was also supported by audit professionals. Users are not only interested in the auditor's opinion, but also in information about key issues during the audit and how the audit was actually carried out.

For example:

- How was goodwill evaluated when auditing the balance sheet?
- How did the auditor check valuations for foreign subsidiaries?
- How was the audit carried out when using the work of other auditors?
- Were indications or actual cases of fraud encountered and how did the auditor deal with them?
- Were any going concern risks encountered and, if so, how did the auditor deal with them?
- Which materiality threshold did the auditor use in his audit?

If these or other issues are encountered in a particular company, the auditor discusses them with directors and the supervisory board, and later submits an accompanying report. However, such issues may also be of interest to other stakeholders: investors, lenders or external supervisors. Because the auditor must include key audit matters, it is now possible to also meet the needs of these stakeholders. This helps to improve communication between the company, auditor and users.

The new auditor's report is an international project and the blueprint has been prepared by the international standard setter for auditors (IAASB). This blueprint explicitly takes the proposals of the European Commission into account. The new auditor's report will become mandatory at international level as of the financial statements for 2016. While awaiting this development, the NBA has decided to impose these rules for the financial statements of public interest entities as of 2014.

The NBA based itself on proposals by the IAASB when formulating the text for the new auditor's report. Furthermore, aspects from the new auditor's report, which was introduced last year in the United Kingdom, and some requirements from the new EU Regulation, have also been incorporated.

03 | Content new auditor's report

The main changes in the new auditor's report are:

Opinion first

The structure of the auditor's report has been improved, which means the most important issue is addressed first: the auditor's opinion about the financial statements. This immediately tells readers what the auditor thinks about the financial statements.

Key audit matters

This is a new section. Key audit matters are specific issues which the auditor deems important when auditing the financial statements and which are relevant to users of the financial statements. The auditor uses this section to describe the main risks in his audit, and why he identified these specific risks. He also mentions which audit activities were carried out and, if relevant, if he has any observations. Key audit matters are very informative because they are specific to the audited company.

Going concern

The new auditor's report features additional information about the responsibilities and activities of the auditor in terms of the going concern assumption adopted for the audited organization. The auditor also describes the management's responsibilities in relation to the going concern assumption. If necessary, the auditor pays specific attention to going concern related issues. This was also the case in the previous approach.

Materiality

Users expect financial statements to be a true and fair reflection of the results and financial position of the audited organization. However, the real situation may not be reflected due to misstatements caused by fraud or error. These misstatements will be deemed material if they could cause users to make decisions they would not have otherwise made.

The auditor takes into account quantitative as well as qualitative aspects of materiality. The auditor explains how he applied the concept of materiality and specifies the threshold used in the new auditor's report.

Scope of the group audit

The scope of the group audit includes an explanation about how the group audit was carried out. For example, this involves discussing the following issues:

- Which group entities he has audited as part of his audit;
- For which entities he used the work of other (local) entity auditors;
- Where he has performed other procedures.

Readability

The 'old' auditor's report was criticized for featuring too much standard text which was less relevant and more difficult for readers to understand. This text has now been more clearly articulated and included in the appendix, or a reference has been provided to the website of the NBA, where this text can be found. This makes the auditor's report more readable.

An illustrative example of the new auditor's report has been included in Appendix 1.

04 | What are the consequences of the new auditor's report

The new auditor's report offers more information than before, which requires effective and timely communication between management, the Supervisory Board and the Audit Committee. The information in the auditor's report must also be consistent with information the auditor has reported to management and the Supervisory Board. Needless to say, the reports compiled by management and the Supervisory Board will feature the same subjects addressed by the auditor.

Consequences for Management/Directors of the company or institution

When addressing key audit matters in the audit report, the auditor will refer to information mentioned in financial statements or the management report. Management will determine the content of these sources of information, which include information relating to addressed key matters. Management and the auditor should discuss these key matters in good time so this information can be coordinated. This will help to improve consistency between the financial report and the auditor's report. Naturally, despite the situation described above, the auditor will always determine the content of his auditor's report.

Consequences for the organization's supervisory body

The audit committee and/or Supervisory Board must consult with the auditor in good time about key audit matters included in the report.

Consequences for the auditor

Good audits are based on an effective risk analysis and clearly determine the scope of the audit. If the auditor knows which elements are relevant at the start of the audit, this will result in appropriate procedures being adopted and will help to create an effective auditor's report. The auditor may also identify key audit matters while auditing activities are being carried out. In this case, he will document and communicate them to management and the Supervisory Board.

05 | Initial experiences with the new auditor's report

As part of a pilot project for financial statements of 2013, a few major auditing firms tested the comprehensive auditor's report among their clients, namely several stock-market-listed Dutch companies. Initial experiences were positive, also among some important stakeholders: Eumedion and VEB (both representing investors).



Initiative also welcomed by politicians.

“...inclusion of more information in the auditor's report, like the main going concern risks, the methodology, the reliability of the methodology and materiality requirements. From an international perspective, standards are being extended further so a more informative auditor's report can be realised.

I am in favour of this.

Jeroen Dijsselbloem, Finance Minister

06 | Closing remarks

The comprehensive auditor's report is still evolving. The text in this brochure will be modified if new developments are encountered. For example, this may occur once (draft) Standard 702N is definitively included in the "NV COS" edition of 2015.

Queries and comments

If you have any queries or comments, please contact Jan Thijs Drupsteen via e-mail: j.th.drupsteen@nba.nl

Appendix | Example of independent auditor's report

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To: The Shareholders and Supervisory Board of ABC N.V.

Report on the Audit of the Financial Statements 201X

Opinion

We have audited the accompanying financial statements 201X of ABC N.V. (the Company), based in (town/city). The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

- 1) the consolidated statement of financial position as at December 31, 201X;
- 2) the following overviews for 201X: consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
- 3) notes to the financial statements, including a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- 1) the company balance sheet on December 31, 201X;
- 2) the company profit and loss account for the year 201X; and
- 3) notes comprising a summary of the accounting policies and other explanatory information.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of ABC N.V. (name of the Company) on December 31, 201X its financial and its cash flows in the year 201X in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements give a true and fair view of the financial position of ABC N.V. (name of the Company) as at December 31, 201X and of its financial performance for the year 201X in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Basis for Opinion

We conducted our audit in accordance with Dutch law, which also covers Dutch Standards on Auditing. Our responsibilities under these standards have been further specified in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of ABC N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA) and other relevant regulations.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements may arise due to fraud or error and will be considered material if, individually or in the aggregate, one can reasonably expect them to influence the economic decisions made by users based on the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have used our professional judgement to determine that materiality for the financial statements as a whole was set at EUR X. The materiality is based on ... (% to be filled in for the relevant benchmark e.g. profit, turnover or other criteria). We have also misstatements and/or possible misstatements taken into account that are in our opinion material for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR Y, which are identified during the audit, would be reported to them, as would smaller misstatements we believe must be reported on qualitative grounds.

Scope of our group audit

ABC N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of ABC N.V.

Because we bear ultimate responsibility for the opinion, we are also responsible for directing, supervising and performing the group audit. And we have considered this responsibility when determining the nature and extent of the audit procedures carried out for group entities. When doing so, the significance and/or risk profile of entities or activities played a key role. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial statements or specific items.

Our group audit mainly concentrated on significant group entities ... [explain what this entails e.g. group entities, countries, activities]. We have performed audit procedures ourselves at group entities aaa and bbb. And used the work of other auditors when auditing entity ccc. We performed review procedures or specific audit procedures at the other group entities.

By implementing the above-mentioned procedures within group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Key Audit Matters

These key audit matters include matters which, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

Our auditing procedures for these matters were determined as part of our audit on the financial statements as a whole. Our description of individual key matters must thus be seen in this context and not as individual opinions about these matters.

Descriptions for key audit matters contain the following elements:

- *A description of the key audit matter;*
- *A summary of performed audit procedures;*
- *If relevant, key observations relating to key audit matters;*
- *If relevant, references to information or notes in the annual report.*

Responsibilities of Management and the Supervisory Board for Financial Statements

Management is responsible for:

- the preparation and fair presentation in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements

using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our Responsibilities for the Audit of the Financial Statements

Our objective is to plan and perform the audit assignment in a manner that allows sufficient and appropriate audit evidence to be obtained for our final opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may have not uncovered all errors and fraud. Therefore, the opinion offered in the auditor's report can be seen to provide a reasonable level of assurance.

The shaded material below can be included in the Appendix of the auditor's report.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included e.g.:

- Identifying and assessing 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining 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.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events and or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an the Company to cease to continue as a going concern.
- Evaluating 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.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of such communication would reasonably be expected to outweigh the public interest benefits of doing so. A precondition is that the Company has not publicly disclosed information about the matter.

Report on other legal and regulatory requirements

Report on the management board report and the other information

Pursuant to legal requirements under Section 2:393 sub 5 at e and f of the Dutch Civil Code (concerning our obligation to report about the management board report and other data), we declare that:

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed.
- Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Appointment

We were appointed by the Supervisory Board as auditor of ABC N.V. on [dated-mm-yy], as of the audit for year X and have operated as statutory auditor ever since that date.

Place, _____ date _____

_____ (Name of Audit firm)

_____ (Name statutory auditor and signature)

Nederlandse
Beroepsorganisatie
van Accountants



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