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Submitted by e-mail

Subject: IAASB Exposure Draft 'The Auditor's Responsibilities Relating to Other  
Information in Documents Containing or Accompanying Audited  
Financial Statements and the Auditor's Report Thereon'  
Ref: B13.08

Amsterdam, 15 March 2013

Dear Mr. Gunn,

We welcome the opportunity to respond to your invitation to comment on the proposed International Standard on Auditing (ISA) 720 (Revised), 'The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon'. By way of background, and to put our comments in context, Eumedion is the Dutch based corporate governance forum for institutional investors with interests in Dutch listed companies. Our 69 Dutch and non-Dutch participants - with a long term investment horizon - have together more than € 1 trillion assets under management.

We are very much supportive of the IAASB's efforts to improve audit quality and to increase the value of the audit for users. We believe that the proposals made in the Exposure Draft strike the right balance between the need for enhancing auditor's responsibility with respect to other

information and the need for auditors to have standards that are consistently applied and that are cost effective. In particular, we are encouraged by the IAASB consulting the wider user community particularly in respect to the reporting aspects of the proposed ISA.

### **Key points**

Eumedion notes that institutional investors rely heavily on management's disclosures so as to make sound investment decisions and to be able to act as engaged shareholders. At a time when business and the provision of capital is becoming increasingly complex and globalised, investors not only require financial information, but also reliable (non-financial) information on the company's strategy and business model, the company's strategic risks and major operational risks related to the company's business model and the way the company manages these critical factors. Investors are also increasingly demanding for in depth information on the company's corporate governance, remuneration and sustainability policies.

Most of this information cannot be found in the annual statements and the auditor report thereon, but should be found in other sources of information. This 'other information'<sup>1</sup>, in particular the information in documents containing or accompanying the audited financial statements (also called the Annual Report), is of paramount importance for institutional investors' analysis.

Likewise financial statements, investors need to have confidence in the integrity of the other information they receive within and outside the Annual Report. Yet, the auditor's opinion does not cover other information and the auditor has no specific responsibility for auditing whether or not other information is properly stated. The auditor is only required to read the other information for consistency with the financial statements, according to the current ISA 720.

Therefore, Eumedion supports the IAASB proposals to extend the auditor's responsibilities towards other information as set out in the Exposure Draft. The proposals fit with users' increased needs of reliable other information (alongside the financial statements) in the modern and highly complex financial and investment environment and are in line with the global development towards more 'integrated reporting'. Further, the proposed enhanced disclosure of the auditor's work with respect to other information, would also give greater transparency to the work carried out by auditors in relation to the Annual Report as a whole.

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<sup>1</sup> "Other information" is defined in the ISAs as financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon (i.e., the entity's annual or financial report). Management Discussion and Analysis (MD&A), operating and financial review (OFR) statements, or other narrative sections of an entity's financial report that address both historical and prospective information are considered to be other information.

**Question 1**

*Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?*

Eumedion agrees with the IAASB that there is a need to strengthen the auditor's responsibilities regarding other information. Whilst the focus of auditors is still almost exclusively on the financial statements, other information has become more and more important to both users and preparers.

As a matter of fact, companies are increasingly required, by legislation, codes and users, to include narrative and qualitative information in documents containing or accompanying financial statements. Also, the complexity of accounting standards has led companies to include extensive material in Annual Reports to support the information now contained in financial statements. Much of the other information disclosed is significantly relevant for institutional investors and has the potential to materially affect the apparent financial performance of a company.

Eumedion believes that it would not be appropriate to require auditors to provide a separate audit opinion on the other information. Yet we concur with IAASB it is reasonable and necessary to require auditors to report, whether they are aware of any facts or matters in the other information that are incorrect or materially inconsistent with the information contained in the financial statements *and/or* the auditor's understanding of the company gained through the audit. We believe such a concept would both improve the value of auditors and be cost effective.

Also, we note that in some jurisdictions, including the Netherlands, auditors are not only required to check the other information on any material inconsistencies, but are also deemed to verify as to whether the other information is compliant with company law requirements regarding the content of other information (*Article 2:393, paragraph 5, Dutch Civil Code*). Requiring on a global scale this may go beyond the IAASB's remit, which is why we believe that the scope for enhanced auditor's responsibilities in the ISAs argues very strongly for flexibility.

**Question 2**

*Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate?*

We partly agree. Eumedion supports the broadening of the scope of the proposed ISA to include not only information in documents *containing* financial statements but also documents that *accompany* financial statements. We believe the IAASB is right (Ref: Para A12) that such

accompanying documents within the scope of the proposed ISA include (but are not always limited to): management report/director's report, the Chairman statement, Corporate governance statements and Internal control and risk assessments reports.

However we believe that a restriction of the auditor responsibility to those accompanying documents which have a primary purpose to enhance users' understanding of the financial statements is too narrowly drawn. For example, this standard is intended so that it would not encompass the corporate governance, remuneration and sustainability policies, which we note above under 'Key points' are being increasingly demanded by investors. Indeed, it is hard to understand that such disclosures would be included in the auditor's work if they are published in a single Annual Report document, but would not be included in the standard if they are published in a separate document or online.

This exclusion of disclosures that we would see as important from the revised ISA 720 responsibilities seems unhelpful, particularly given the different approaches depending on how and where they are published. We would therefore suggest simply dropping 'the purpose test' and requiring the auditor to look at all disclosures accompanying the initial issue of the annual accounts. Inevitably, the auditor oversight on these sorts of materials will be less detailed and be more qualitative, but it is nonetheless highly worthwhile having certainty, meaning that there is less risk of investors misunderstanding the scope of the auditor role.

**Question 3**

*Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?*

Eumedion believes the criterion of 'initial release', as set out in paragraph 9 (b), is clear and understandable. It includes documents that are issued by the company in connection with the *first time* the audited financial statements and the auditor's report thereon *for a reporting period* are made generally available to the group of users for whom the auditor's report is prepared.

Eumedion supports the approach that documents disclosed after the initial release are deemed to be issued *in connection with* the initial release if the other information contained in them addresses the *same reporting period* as the audited financial statements (Ref: Para A5).

**Question 5**

*Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular do respondents believe that the phrase "in light of the auditor's understanding of the entity and its environment acquired during the audit" is understandable for the auditor?*

Eumedion endorses IAASB's aim to strengthen auditors' ability to identify there may be material inconsistencies in the other information and, if so, respond appropriate. The proposed enhanced obligation on the auditor to read and consider the other information *in light of the auditor's understanding of the entity and its environment acquired during the audit* certainly helps to achieve this aim (Ref: Para 8 (a)). We consider the approach appropriate and clear in the light of the extensive and profound guidance as proposed by IAASB (Ref: Para A28-A43).

**Question 7**

*Do respondents believe that users of auditors' reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit?*

Eumedion believes the proposed definition of the term 'inconsistency' would be clear for investors. According to the proposals, the concept of inconsistency, based on reading and considering of the auditor, will move from an inaccuracy due to difference between the other information and the financial statements to a difference between the other information and the auditor's understanding of the entity and its environment acquired during the audit. Inconsistency would exist when the other information:

- (a) contains information that is incorrect, unreasonable or inappropriate;
- (b) is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.

Eumedion also supports IAASB's approach that such an inconsistency should be considered *material* when the inconsistency could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole (Ref: Para 9 (a)).

Also, we believe that the IAASB rightly proposes that other information that is materially false or misleading in accordance with relevant ethical standards, should be qualified by its nature as materially inconsistent (Ref: Para A2).

**Question 11**

*With respect to reporting:*

*(a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?*

*(b) Do respondents believe it is clear that the conclusion that states “no audit opinion or review conclusion” properly conveys that there is no assurance being expressed with respect to the other information?*

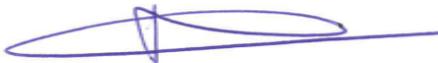
Eumedion supports the suggested requirement to include a clear and explicit statement in the auditor report on whether material inconsistencies in the other information have been identified in light of the auditor’s understanding of the entity and its environment acquired during its audit. Also important is the suggestion that the statutory auditor specifically identifies which specific other information he has read and considered.

When the statutory auditor identifies a material inconsistency for which a revision is necessary and management refuses to make a revision, the auditor’s statement on other information should imply a *detailed* explanation. IAASB’s Invitation to Comment of June 2012 (Appendix 2, paragraph 2) offers a well balanced template in this respect.

The suggestion to include a disclaimer that the statutory auditor has not given ‘a separate opinion of review conclusion’ might also add value in terms of avoiding misinterpretation of the works and findings of the statutory auditor.

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Wouter Kuijpers ([wouter.kuijpers@eumedion.nl](mailto:wouter.kuijpers@eumedion.nl); tel. + 31 20 7085882).

Yours sincerely,



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