

The managing and supervisory directors

The Hague, 9 October 2017

Ref: B17.27

Subject: Eumedion Audit Letter 2018

Dear managing and supervisory directors,

As observed in our evaluation report of the 2017 AGM and reporting season¹, communication between external auditors and investors and other stakeholders has improved in the last number of years thanks to – among others – the requirement to publish a so-called long-form audit report. The long-form audit report provides shareholders and other stakeholders with a window into the audit – an understanding of how the auditor's opinion was formed and hence may contribute to the confidence in the audit. It sets out the materiality threshold used, the degree to which parts of the group were scoped-in to the audit and, most importantly, specifically what key audit matters the external auditor faced, their underlying causes and how they were addressed. It tells investors and other stakeholders what the external auditor did, explained in terms highly specific to the audit in question. The key audit matters section of the long-form audit report generally contains a description of the matter followed by a description of how the audit addressed the matter. We believe that the added value of the long-form audit report could be further enhanced if the key audit matters section is supplemented by a number of additional elements.

First, we recommend to introduce the key audit matters section by discussing two items:

- a) the external auditor's reflection on the follow-up of the company with respect to the key audit matters identified in the previous audit report, e.g. by describing why some audit matters are no longer 'key' in the relevant financial year and/or by making a reference to the relevant disclosures in the management report. In that way, investors and other stakeholders can assess whether the key audit matters are sufficiently addressed by the company's management and supervisory

¹ <https://eumedion.nl/en/public/knowledgenetwork/publications/2017-proxy-season-evaluation.pdf>.

board. In book-year 2016 the external auditor of Ordina has already set the tone with respect to this element.

- b) the external auditor's observations with respect to the quality and effectiveness of the company's internal control framework. The latest AFM report on the quality of audits shows that internal control testing is a recurring inspection theme with the highest numbers of findings in individual audit engagements. We believe that a standard disclosure on the external auditor's general observations with respect to the quality and effectiveness of the client's internal control framework can contribute to improvements in the audit performance and in the reliability of the auditor's opinion. In book-year 2016, the external auditor of KPN has already set the tone with respect to this element.

Second, we recommend to conclude the key audit matters section with the external auditor's 'results, observations or conclusions' with regard to the matter specified. The 2016 audit reports of a number of listed companies, including DSM, Gemalto, ING Groep, NN Group and Accell Group (all audited by KPMG), already contained this three-way split. As a result of the entering into force of the European Audit Regulation, as from financial year 2017 onwards the audit report should also contain "where relevant, key observations arising with respect to those risks [i.e. key audit matters]".² We believe that when an audit matter is designated as "key", the external auditor's observations with respect to that matter are always relevant. Therefore, we encourage you that from book-year 2017 onwards *all* key audit matters should be concluded with 'observations or conclusions' by the external auditor.

We hope you will take the suggestions made above in consideration when preparing the 2017 audit reports.

We are available should you require further clarification.

Yours faithfully,



Rients Abma
Executive Director

² Article 10, paragraph 2, point (c), sub iii Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, OJEU 2014, L 173.