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The Royal Netherlands Institute of Chartered Accountants [*Koninklijke Nederlandse Beroepsorganisatie van Accountants*, "**NBA**"]
The companies quoted on Euronext Amsterdam

Date: 28 January 2019
Reference: 2019 17 PK
Subject: Letter to audit firms 2019; 2019 AGM season and auditor's expected contribution

Dear Sirs, Madams,

Since 2013, the Dutch Investors' Association [*Vereniging van Effectenbezitters*, "**VEB**"] has sent audit firms serving listed audit clients points to consider and opportunities for improvement in relation to the information included in comprehensive audit reports and the explanation provided during annual general meetings ("**AGM**").

The information auditors have provided on their audit procedures and findings has undeniably improved in recent years. Nevertheless, the numerous events and incidents that have occurred both at home and abroad clearly show that there should be no room for complacency.

To bring the performance of auditors further into line with investor requirements and expectations, we would like to present a few matters that we will give extra attention during the upcoming period.

A. Management estimations
Effective mid-December 2019, revised auditing rules will enter into force. The revisions pertain to the review of estimations made by management when drawing up financial summaries, such as estimations relating to provisions for doubtful debts, asset depreciation methods, WIP positions, costs from settlements and legal proceedings, gains or losses on long-term contracts, obsolescent inventories, etc.

These estimations are based on management's professional judgement. The associated complexity and subjectivity constitute additional risk factors for users of financial statements in relation to material misstatements.

Standard 540 of the Further Rules on Auditing and Other Standards [*Nadere voorschriften controle- en overige standaarden*, "NV COS"] sets out how the auditor is to assess and review estimations and the explanatory notes thereto in terms of material misstatements, testing, among other things, whether the estimation methods, information and assumptions used by management are appropriate, accurate, reliable and relevant.

During the upcoming period, the VEB will, from the range of changes to enter into force with effect from the revision of Standard 540, spotlight the following aspects.

- The professional scepticism shown by the auditor in reviewing estimations
- The way in which the auditor reviewed management communications about estimations and uncertainties
- The way (or the communications about the way) in which the auditor obtained an understanding of the entity and its environment, including the entity's internal controls

B. Understanding the company and its environment
To be able to identify material risks, the auditor is to obtain an understanding of "specified aspects of the entity and its environment ...", in conformity with the Standards.

The innovative and disruptive power of technological developments is forging major changes in markets and business models. This may have far-reaching consequences for auditors when it comes to better understanding the environment and assessing the associated risks.

During the upcoming period, the VEB will devote specific attention to how auditors report on the understanding they obtained of the market and of the competitive environment, and to how sector-specific risks have been included in the audit and in the audit design.

C. Procedures and accountability with regard to signs of fraud
Fraud, in the broadest meaning of the word, including corruption, tax evasion, sanction violations and money-laundering (or facilitating this), has a major tangible and intangible impact on a company and its stakeholders.

Preventing and fighting fraud at companies starts with identifying and mitigating risks of fraud. Auditors must play a key role in that process. The VEB would hereby draw your attention to the following issues, in particular.

C1. Involvement of forensic accountant in drawing up audit plan
In conformity with NV COS Standard 330, the auditor is to "design and perform audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level resulting from fraud."

As practice shows that auditors are not always adequately equipped and/or do not always consider themselves sufficiently able to identify risks of fraud at an early stage, special assistance is to be the new standard. Therefore, the VEB holds the view that forensic accountants, who – as may be assumed – specialise in identifying the risks and signs referred to, must always be actively involved in the preparation of the audit plan.

Any objections that this approach will cause audit fees to go up are simply not acceptable. The consequences of not identifying fraud – which would be the possible result of a less intensive audit approach and performance – turn out to be many times more expensive.

C2. Detailed opinion on explanation of risks of fraud
The VEB holds the view that the subject of "fraud" should be a standard element of the risk paragraph included in the directors' report. In that paragraph, the supervisory board and, in particular, the audit committee must explain in detail what risks of fraud and corruption apply to the company in question. The actions that have been taken to identify and mitigate the said risks of fraud must also be reported.

It will be up to the auditor to specifically report, in his/her report (the auditor's report), on the accuracy and completeness of the fraud-related information included in the risk paragraph.

C3. Review of information of third parties
In conformity with NV COS Standard 240, the auditor is to obtain sufficient appropriate audit evidence as to the assessed risks of material misstatement resulting from fraud.

In addition to information they obtained independently, auditors will, in practice, use external expertise. It may be expected that they will not blindly accept the information supplied, be it from an external source or from an external expert (engaged by management). They will have to subject reports of expert third parties to a critical review and account to stakeholders for how they fleshed out this effort.

Final note
We are counting on transparent financial statements and directors' reports, and are looking forward to fruitful discussions during the AGM.

Yours faithfully,

P.M. Koster
Director
The Dutch Investors' Association