



To the Public Interest Oversight Board (PIOB)

Submitted electronically

Subject: Eumedion's response to the '2017-2019 PIOB Strategy Public Consultation Paper'

Ref: B16.23

The Hague, 24 November 2016

Dear members of the PIOB,

Eumedion appreciates the opportunity to respond to your consultation document '2017-2019 PIOB Strategy Public Consultation Paper'. This excellent consultation document not only highlights many challenges in the audit standard setting process, it also highlights numerous improvements and solutions. In general, we acknowledge the problems identified, and also support the suggestions presented.

Eumedion represents the interests of over 70 institutional investors, all of whom are committed to a long term investment horizon. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard reporting and audit frameworks as a critical part of a global financial infrastructure, especially since investors are dependent on the quality of reporting for allocating their own and entrusted capital. Together our participants invest over € 4 trillion of capital in equity and corporate non-equity instruments.

Before responding to the individual questions in the consultation document, we like to share with you our main views.

Main views of Eumedion

The consultation document clearly highlights issues in the governance of setting audit standards. With only three so called 'Public Members' out of 19 board members, auditors and former auditors dominate the decision making process. We see a role for investors to contribute, as investors are the ultimate beneficiary of high quality audits and therefore one of the key stakeholder groups that are the reason of the existence of the audit profession.

The nomination committee should not be dominated by the International Federation of Accountants (IFAC), and needs to be revised to balance input from a broader range of stakeholders like investors and audit profession regulators.

Eumedion already is involved in providing feedback on various draft audit standards to the NBA, the Dutch standard setter for audit standards: two NBA consultations inspired us to highlight quite a number of suggestions to sharpen up standards and guidance on the auditors' role in the prevention and detection of fraud¹ and corruption².

We would also like to see increased influence from audit profession regulators, as these regulators help protect investors' interests and have in-depth knowledge of how existing audit standards do, or do not, translate in high quality audits.

We foresee that only a major overhaul in the overall governance could result in meaningful influence by investors and regulators. Without the clear perspective of meaningful influence, little effort can be expected from investors. The perspective should be that the standard setting boards will have a modern governance structure, and be setting leading and high quality audit standards truly in the public interest, at a satisfying high pace through a due process that is transparent and qualifies for international adoption under the EU Directive on statutory audits.³

Page 21 of the consultation document highlights a number of recommendations made by the Monitoring Group that would already constitute important improvements, which we would welcome. The need for change is high given the observed instances of lengthy decision making processes, and given the fact that to our knowledge not a single jurisdiction has implemented the ethics standards of the International Ethics Standard Board for Accountants.

Investors are notoriously difficult to find - even for bodies like the International Accounting Standards Board and the European Financial Reporting Advisory Group - this is a major challenge. However it is possible to gain investor involvement. Investor involvement comes at a high opportunity cost, which means adequate (not modest) compensation needs to be put in place for the Public Members that take on evidently important, but for the individual investor often rather remote, responsibilities.

¹ <http://eumedion.nl/nl/public/kennisbank/consultaties/2016/2016-07-commentaar-nba-discussienota-fraude.pdf> (Dutch only)

² <http://www.eumedion.nl/nl/public/kennisbank/consultaties/2016/2016-09-commentaar-nba-consultatie-corruptie.pdf> (Dutch only)

³ Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

We conclude this letter with answering the questions in the consultation paper.

Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?

The consultation paper already outlines a number of improvements to the risk identification process by the PIOB: the PIOB foresees intensifying the relationship with Monitoring Group (MG) and the Consultative Advisory Group (CAG), along meeting at least twice a year with the CAG chairs, and organise public interest workshops with CAG and MG.

Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?

No, we are not aware of other stakeholder groups that needs to be represented in the standard setting process.

Q3a. Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs?

Yes, the SSB needs to diversify its members to other stakeholder groups. We expect having a Public Member Chair will be instrumental for managing this transition.

Q3b. Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?

We do not envisage an SSB that has no members from the audit profession itself, so involvement from the audit profession in the nomination committee is justified; however the audit profession should not dominate the nomination process.

Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?

Yes, the audit profession clearly is still struggling with identifying and serving the needs of their ultimate clients, the general public and most notably investors. In many ways, members from the accounting profession will have conflicting interests with the public interest as fewer or changing degrees of freedom for the accounting profession may impact their relative freedom to operate, income, wealth, accountability, and the need for education. Ideally, the interests of Public Members should be aligned with the public interest.

Q5. Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?

Investors are notoriously difficult to find - even for bodies like the International Accounting Standards Board and the European Financial Reporting Advisory Group - this is a major challenge. However it is

possible to gain investor involvement. Investor involvement comes at a high opportunity cost, which means adequate (not modest) compensation needs to be put in place for the Public Members that take on evidently important, but for the individual investor often rather remote, responsibilities.

Q6. Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?

Our recent response to two consultations issued by The Royal Netherlands Institute of Chartered Accountants (NBA) on fraud and corruption highlighted a number of shortcomings and room for improvement. We observe that the hurdle for rewriting audit standards is quite high. Instead of rewriting standards, the SSB seems to favour just changing the related guidance. Eumedion fears that adjusting guidance may not be as effective in improving the quality of audits and changing behaviour of auditors.

Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?

Given the lack of pace in the development of audit standards, as described in the consultation paper, we see a need for the PIOB to being involved at an earlier stage and monitor whether sufficient progress is made in the working groups and task forces.

Q8. Where do you see gaps in the PIOB's oversight?

We currently see no other gaps in the PIOB's oversight than those already identified in the consultation paper.

Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?

Yes, the time to completion of a new or revised standard should be shortened. We are unconvinced that public consultation and due process are the root cause of the described delays. Matters that the public interest requires audit on are changing quickly. The governance of setting audit standards should be overhauled so audit standards will adapt quickly. Sometimes changing needs for audit can be found in changing laws in some jurisdictions, for example The Netherlands and other EU Member States, which require an in-depth review of the management report for material misstatements⁴. Increased attention for themes like cyber security, environmental performance, prevention and detection of corruption and fraud are examples of developments that need to be addressed by up to date audit standards.

⁴ EU Directive 2013/34/EU, article 34: 'The statutory auditor(s) or audit firm(s) shall also ... state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements.'

Q10. What topics would you consider – from a public interest perspective – essential additions to the present education curricula?

Companies increasingly outline their key risks, and associated mitigating strategies. One area where the auditors' opinion increasingly adds value, is in assessing to what extent the risk mitigating strategies are, and have been effective. These risks vary from company to company, and also vary over time. This requires auditors to keep up to date, and audit standards to swiftly adapt for Integrated Reporting framework, and new risk areas such as auditor ethics, cyber security, and climate risks.

Q11. Can you suggest how the PIOB might enhance its understanding of the public interest issues relevant to international accounting education standard-setting, and to accounting education practices and processes?

We currently have no suggestions.

Q12. In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?

It would be a major accomplishment if the ISAs were to qualify for international adoption under the EU Directive on statutory audits.⁵ This would greatly enhance the credibility and enforceability of the standards.

Q13. Do you find the PIOB Quarterly Updates useful?

Yes, we do.

Q14. Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest?

We currently have no suggestions. The PIOB already seems to go the extra mile on transparency.

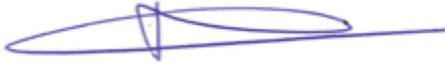
Q15. What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?

We would like to echo the suggestions included in the consultation paper, i.e., in short, guarantee the stability of the PIOB through a stable and diversified funding framework; establish a close coordination between the MG and the PIOB; and monitor the implementation of the governance enhancements which will be developed by the MG.

⁵ Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

If the PIOB would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Rients Abma
Executive Director

Eumedion
Zuid Hollandlaan 7
2596 AL THE HAGUE
THE NETHERLANDS