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AkzoNobel
Tomorrow's Answers Today

Ministry Of Finance

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Dear Ladies and gentlemen

As a Dutch listed company, we have been following with great interest both the Dutch as well as the European discussions regarding improvements of external auditor policies.

We appreciate the opportunity you have provided to comment on the Dutch proposals via a consultation. We are supportive of any proposal that would improve the quality of audit and endorse the following principles, which we already included in our existing auditor's independence policy:

- Our main principle, when discussing other engagements for our external auditor is based on the question whether we would run the risk that later-on they would have to audit their own firm's work. For us, the whole discussion should be based on this principle.

- Company shareholders mandate representatives (in our case the Supervisory Board via its Audit Committee) to recommend the appointment of auditors, fix their remuneration, oversee auditor independence and oversee auditor performance.

- We believe that the appointment of auditors is a corporate governance issue and not a matter of public audit policy. We strongly support, as part of good corporate governance, the retention of the decision rights of shareholders.

- AkzoNobel supports the need for the fundamentals of public company audit to remain in place.

However, we are disappointed the direction you have chosen, which, as requested, we will explain following the sequence of your questions.

In general, we would not have answered the questions differently for smaller OOB companies or even MKB audited companies.

1. Independence

a. Other services provided by the external auditor (Q 1-9)

The proposal to have a relative small cap on or even prohibit a combination of audit with other services could have the unintended consequence that the quality of the audit work drops as knowledge of business processes within audit firms, gathered in different assignments and context, will decrease over time.
If a cap on non-audit related services would be deemed necessary, we would suggest that the total amount spend on these non-audit services may not exceed the amount spend on audit-and audit related services.
Our preference would be to have the Audit Committee decide on engagements other than audit related.

b. Business relations and Sponsoring (Q 10-13)

Supplier customer relations between the client and audit firm, provided these relations are in line with the regular business activities of both, should not be forbidden. If in doubt, the Audit Committee could always make the judgment call. Sponsoring of either party is a topic that always should be approved by the Audit Committee, case by case.

c. Mandatory rotation of firms (Q 14-19)

Mandatory rotation will increase audit costs for all companies, as the new firm will have to spend time on assessing the files of the previous auditor and getting to know the company in all its complexity. For multi-national companies like us, this will also ask a great and periodically recurring effort from our internal staff. We seriously expect the quality of the audit performed to be at risk.

d. Joint audits (Q 20)

The same arguments as for rotation of firms, but augmented by having two firms decide on audit work to be performed and discuss issues. In our case, with a business footprint across the globe, we foresee that inconsistency between opinions and differences in quality of the firms involved will create great additional costs and efforts.

e. Selection and monitoring of (quality) of the external auditor (Q 21-23)

Our Audit Committee plays an important role in both aspects and we see no additional benefit in having an external oversight body influencing these.

2. Information

a. Transparency on quality of audit firms (Q22–26)

In their role of reviewing quality of the external audit, the Audit Committee can and will ask for detailed information on the system of quality control and monitoring within the audit firm. The AFM could provide more individualized information on the outcome of their quality reviews, provided any connection with the clients of those firms cannot exceed the current public available information on those clients.
If the audit file of our company would be selected by the AFM during their review, we would appreciate to receive information from our auditor on the outcome.

b. **Transparency on independence (Q 27-30)**
We assume that part of the quality system of an audit firm, maintaining independence from their audit clients is a major topic. The Audit Committee in her oversight role on the external auditor, will and can ask how the firm manages this risk.
We only would be interested in information on breaches of independence by our external auditor, if and when those breached regard us.

c. **Transparency towards external stakeholders of the annual report (Q 31-39)**
A Company Board and Supervisory Board are solely responsible for the content of the Annual Report and it is their decision what they want to disclose in which detail, besides the legally mandatory information.
It is the external auditors' role to test marginally that the information provided is in line with the financial statements. If they want to highlight some aspects of the Annual Report to the readers, they currently already have the "emphasis of matter" paragraph, in which they can direct the reader towards the relevant sections of the Annual Report.

We would oppose any independent statement of the external auditor beyond that: it is not their role, their mandate nor their job to be an extension of the company's governance bodies.

Also any additional information like how the audit has been performed, which topics and estimates have been discussed with the Board and/or Supervisory Board, which parts of the group have been in scope for detailed audit work etc. would be the Company's to share with the outside stakeholders when requested e.g. in the Shareholders meeting and not for the external auditor to elucidate.

We also disagree that the content of the management letter and the resulting discussion between auditor, Board and Supervisory Board should find its way into the Supervisory Board Report: these discussions when relating to the question of true and fair view should be translated into adjusted financial statements, if deemed material. If they were material and have not led to adjustments, the auditor has to decide which auditors' opinion is most adequate in that situation. This provides sufficient transparency to the stakeholders.

The non financial information provided in the Annual Report is in most cases forward looking on strategy risk and measures to mitigate those risks: these are typical topics for which assurance is difficult to provide: there is no norm set like accounting standards that can be used as reference for an assurance statement.

Most of the proposals in this chapter will drive up the external audit costs and create a false sense of comfort for the readers.

3. European harmonization and oversight (Q 40–41)

We do encourage the Dutch government to ensure full harmonization with European and Global standards for auditor independence.
Before new rules are to be set however, we would endorse a thorough study into the effects of the proposals currently being discussed: in some countries e.g. firm rotation and joint audits already are mandatory. As an outsider we have not seen the transparency and quality effects you are seeking with the current proposals in those countries.

We do not endorse a European oversight body on audit firms; if and when countries truly have ensured harmonization of the standards relating auditor quality, independence and nationwide oversight. As well as within the company, oversight by the highest governance body of the company, oversight on European level would only drive cost up.

Yours faithfully

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