

IFAC Strategy Meeting 2-3 maart New York

Introductie Berry Wammes bij paneldiscussie **The Regulatory Landscape**

“In the Netherlands, the debate on the accounting profession has gained momentum during the last year. In May the finance minister and the parliament gave the profession four months to come up with convincing proposals, otherwise they should take severe measures. So the firms and the professional body appointed a group of seven young partners who developed a package of 53 measures. The most important were:

- a supervisory board of non executives in audit firms, who also appoints the executive board
- a fixed salary for executives, with a maximum bonus of 20%, for the realization of objectives which should primarily be based on quality
- a clawback mechanism for partners in case there is harmful behavior
- a promotion and remuneration policy based upon quality as the main criterion
- mandatory reporting of quality indicators, including partner-staff ratios and hours spent
- a professional oath

What **caused** these developments?

First, there was a series of incidents in which one firm, kpmg, was heavily involved. Major fraud in a number of listed companies was not detected or too lately. In addition the integrity of kpmg leadership was questioned publicly because of problems with their own accounts and partners who invested in real estate having conflicts with local government. This resulted in an escalating media coverage and ultimately heated debates in parliament.

However, those were not isolated incidents because they fell on fertile ground, and here is a second major cause: the continuing poor quality results of the firms. Reports of the regulator showed more than forty percent insufficient audit files.

The sector has always **downplayed** it as minor issues, without any material effect on the audit itself. But those arguments were never able to convince the public. Which is not so strange. For what industry gets away with such figures? An automobile manufacturer with these scores would be bankrupt within months. And would you have surgery by a surgeon who tells you that you should not be worried about the errors in the medical files, and that you should rely upon him simply doing his utmost, as he always did?

And thus there is a threat of contamination. Because in other countries, the audit quality reports are equally insufficient. Fortunately, there is often a mild regulator or there is less political attention.

But the chance that this remains so is small, because led by regulators join forces in IOSCO and IFIAR and increasingly share their knowledge. I expect further discussions on quality performance and the network organisation and further interference in the standard setting processes.

The question is whether the Dutch developments is threatening in all aspects. In every crisis lies also a chance.

Indeed there are some **alarming trends**.

If a firm in each country will have its own supervisory board that will appoint the local board, this will be an obstacle for the international integration of global firms. More supervision and reporting demands will further increase administrative burden. And more regulatory pressure on the audit discipline leads to tensions in the network.

And worst of all, in fact improving audit quality is a rearguard fight, it should be in order and it hinders focus on innovation and new developments.

But there are also **pluses**.

Such as the increased focus on quality, which should lead to better performance in that area.

There is more attention to the audit profession as a craft, the high requirements do increase its relevance and this positively affects the attractiveness of the profession. And I think the involvement of outsiders in the audit firms is also a plus, because it encourages an outward-looking attitude and thus innovation.

But the most important is the fact that the profession in the Netherlands is not anymore in the defensive position which it has been for ten years. We have taken our future in our own hands by coming up ourselves with far reaching proposals. This has led to greater self-confidence and a positive response in the media and politics. The profession has gained social trust and stakeholder confidence by responding firmly and clearly put the public interest on the first place. That's the **one lesson** we have learned. Not just react to the actions of others, but taking action, and also daring to leave it to the younger generation.

The **other lesson** is that you can tell a great story about audit quality, but this is not convincing as long as the numbers tell a different story. And the numbers do not lie. So if we want to regain authority and thus our right to speak, we must improve our audit quality performance. We should work together much more and share knowledge. Not just about standards, but about performance and behavior. Because that is what we are judged on. “