

COMMENDED PAPERS

Sharing knowledge: public management letters, a new way to fulfil the public role of accountants*

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The NBA's (Nederlandse Beroepsorganisatie van Accountants—The Netherlands Institute of Chartered Accountants) membership comprises a broad, varied occupational group of more than 20,000 professional accountants working in public practice, at government agencies, as internal auditors, or in organizational management. Integrity, objectivity, professional competence, and due care, confidentiality, and professional behaviour are fundamental principles for every accountant. The NBA assists accountants in fulfilling their crucial role in society, both today and in the future

Abstract

The public role of accountants is to share their collective knowledge to identify strategic risks in particular sectors or themes in a timely manner, so that stakeholders have the opportunity to control them. In the wake of the global credit crunch, society has asked us to fulfil this gatekeeper's role. A public management letter (PML) is a collective management letter, written by auditors, made public. PMLs identify risks in the areas of governance, reporting and compliance, operations, and audit. The NBA in the Netherlands published 11 PMLs between mid-2010 and end of 2013. This paper shows that PMLs can be an effective instrument for accountants to fulfil their public role. Stakeholders' recognition of signals and acceptance of recommendations in a PML varies with the type of sector they are operating in and their role within that sector. To produce, publish, and follow-up on PMLs is a labour- and time-intensive process.

Sharing knowledge: public management letters, a new way to fulfil the public role of accountants¹

"In his or her individual capacity an accountant has limited opportunities to publically flag anything. As a group, however, the profession is definitely capable of making itself heard. Sharing experiences makes it possible to identify risks in the social system. NIVRA² wishes to enhance the stature of this collective role."

JAN HELDERMAN

former NIVRA Chairman, April 16th 2008; opening of new NBA premises by Her Majesty Queen Beatrix.

*: We are grateful to all the accountants and stakeholders who contributed to the public management letters and support the NBA in fulfilling the public role of accountants in the Netherlands

1: Wherever this publication mentions "accountant(s)," this should be interpreted as "professional accountant(s)."

2: On January 1, 2013, Royal NIVRA and NOvAA merged to become a new organization, the NBA.

I. Introduction

I.1. Goal

The NBA (Nederlandse Beroepsorganisatie van Accountants—The Netherlands Institute of Chartered Accountants) bundles the collective knowledge of Dutch professional accountants to identify, in a timely way, risks³ in either economic sectors or related to particular governance themes. The goal is to identify strategic risks in the areas of finance, governance, and administration, and to make them public. This includes systematic risks that transcend individual organizations and might have material social impact. Accountants share their findings anonymously in order to maintain client confidentiality. The NBA discusses these findings with the stakeholders of the sector involved and publishes the result in a so-called public management letter (PML). PMLs are an innovative way for accountants to fulfil their public role in society by highlighting the risks that stakeholders need to control.

A PML is not a letter on public management. It is a collective management letter, written by auditors, made public. Auditors, in their management letters and audit reports, identify shortcomings in the internal control system of an individual organization. These reports remain internal and it is not for the auditors to make the contents public. The PML process is designed by analogy to the individual management letter process, but at a sector level and with the clear aim to make findings public.

Eleven Dutch PMLs

Risk Management, *Managing risks is a people's business*, November 2013

Transport & Logistics, *Cease trading or carry on*, June 2013

Secondary Vocational Education and Training (VET), *Governance, a special skill*, April 2013

Good Causes, *Good cause, good story*, December 2012

Tone at the Top, *Tone at the Top: can accountants make a difference?*, September 2012

Municipalities, *Stacking tasks, piling risks*, June 2012

Greenhouse Horticulture, *From craft to business*, November 2011

Commercial Property, *Tell it like it is*, June 2011

Pensions, *Your pension is uncertain*, February 2011

Long-term Healthcare, *New perspectives for Dutch healthcare*, November 2010

Insurance, *Indications for insurers*, June 2010

Eleven PMLs were published in the Netherlands between mid-2010 and the end of 2013. They cover four public or not-for-profit sectors, three public interest entity (PIE) sectors, two small- and medium-sized entity (SME) sectors, and two governance themes. Each letter contains around five signals, illustrated with negative and positive examples and accompanied by recommendations. It also includes, on average, three to four written reactions from relevant stakeholders.

I.2. Hypotheses

In this paper we explore the following three hypotheses:

- 1) PMLs identify risks in the areas of finance, governance, and administration: are PMLs doing what they initially set out to do?
- 2) Stakeholders' recognition of signals and acceptance of recommendations in a PML varies with the type of sector they are operating in and their role within that sector.
- 3) PMLs can be an effective instrument for accountants to fulfil their public role.

3. ICOSO identifies risk as the possibility that an event will occur and adversely affect the achievement of objectives (2013, Committee of Sponsoring Organizations of the Treadway Commission).

II. Background

II.1. Lessons from the credit crunch

The NBA started the PML initiative in 2009, and it became part of the collective response to the credit crunch of those years. This response is detailed in the NBA's Plan of Action Lessons learned from the Credit Crunch (2010): "The credit crunch has prompted legislators and regulators to review the actions of various parties that were involved. The accountancy sector, being one of the links in the financial chain, also became the subject of review in this process. Although the accountancy profession is not perceived as having caused the credit crunch, the question was asked whether auditors did enough to live up to their designated role." "The credit crunch has led to heightened risk awareness in society at large. Both the recommendations and questions of the parliamentary De Wit Committee and the EC's Green Paper are the result of the perceived need to identify risks earlier and to manage them better. Members of Dutch Parliament have explicitly stated that auditors should be more effective and stringent in fulfilling their gatekeeper's role."

Publishing PMLs is one of the measures the NBA took to fulfil this robust gatekeeper's role. "Ringing the bell" on risks that are relevant from a social and governance perspective is not a legal obligation for accountants. It is, however, part of the responsibility of the accountancy profession to act in the public interest, as stated in the Code of Ethics for Professional Accountants (IEASB, 2013, Section 100). New is that the NBA perceives this responsibility not only as an auditor on the level of individual organizations—with an independent audit opinion and management letter—but also as a collective of accountants in society. This is one of the lessons we learned from the credit crunch, aimed at restoring trust in accountants' opinions in a changing economic and cultural environment.

II.2. Stakeholder dialogue

In a PML, the NBA presents signals and recommendations to stakeholders and interested parties in a sector. These cover (non-)executive directors of organizations or entrepreneurs operating in that sector, regulatory and oversight bodies, (members of) Cabinet, and committees of Parliament, as well as our own members, accountants. The target audience is broader than the sector alone, and this fits with our public role. The NBA also wants to reach the general public with their signals: the readers of opinion articles written for newspapers and websites.

PML publication is only a means to a much more important end: the sharing of knowledge. Interesting reports assembled by a small group of experts and—once published and presented—archived in the bottom drawer, fail their mission. It demands an extra effort to get reports actually read, accepted, and endorsed. PMLs are, therefore, not only made available on our website and accompanied by press releases, they are also sent to a wide audience of stakeholders. We ask them to put the reports on their agenda and we are frequently invited to present and discuss the PMLs in their internal meetings. The long-term goal is to establish a regular dialogue between a group of leading accountants and the main stakeholders in a sector. These new—or sometimes renewed—contacts are shaped to a mutual exchange of knowledge about developments in a sector.

II.3. Due Process

A PML is based on a due process to ensure a quality product. In brief, the knowledge-sharing process consists of the following steps: A working group of around seven authoritative auditors in the sector shares anonymous findings and gathers illustrative cases. Group members meet three to four times. A draft PML is freely discussed in a closed meeting with stakeholders: what do they recognize, miss, or disagree with? The NBA Identification Board applies a social assessment to signals and recommendations: are they sound, sharp, and socially relevant? Key stakeholders in the sector are asked to respond in writing to the final PML. Project management and final editing is provided by the NBA program team, which also includes communication resources. The whole process is detailed in a manual and takes six to eight months.

The NBA Identification Board is an advisory body to the NBA Executive Board, installed to oversee the PML program and chaired by a former NIVRA chairman. It consists of six members, of which currently five are authoritative chartered accountants from various backgrounds. At least one member is not a chartered accountant to ensure the external perspective is represented. The board's first task is to select sectors or themes that would benefit the most from a PML. They select not only sectors that are clearly burning, but also look into sectors that are smouldering and where risks are not yet high on the social agenda. The Identification Board uses selection criteria such as social and economic relevance, feasibility, and the potential for knowledge sharing and adding value: can accountants be distinctive in their contributions to the public debate? For each

PML, one of the members is a sponsor, available as a sounding board throughout the process. He or she signs the PML together with the NBA (Vice-)Chairman.

The NBA has been learning by doing. Working through the due process for 11 PMLs has taught us the following lessons:

- Incorporate clear recommendations aimed at specific stakeholders to facilitate dialogue.
- Don't lose sight of the primary process: when auditors focus primarily on financial statements and administrative risks, they run the risk of neglecting other operations.
- Incorporate a signal aimed at accountants auditing entities in the sector.
- Incorporate real—but anonymous—negative and positive examples to illustrate signals.
- Aim for a title and a cover that holds the main PML message to attract readers.
- Shorter and sharper: put signal, examples, and recommendations on two pages.
- Request stakeholders to restrict their written reactions to two pages as well.
- Be crystal clear on who holds which responsibilities in producing these public, high-profile NBA publications, with lots of accountants and stakeholders involved.
- Visit key stakeholders, such as sector organizations and authorities, early in the process to ensure their cooperation later on.
- Spend at least as much time on publication, communication, and follow-up on a PML as was spent on producing it.

III. Research method

Three mainly qualitative studies were performed to research the three hypotheses:

- 1) Categorization of signals
- 2) Classification of written reactions: sentiment analysis
- 3) Effectiveness analysis

III.1. Categorization of signals

In Study (1) we identified common topics among the 56 signals from the 11 PMLs. A signal is in our own definition a systematic risk transcending individual organizations that can have a material social impact, and thus a signal is strategic by definition (COSO, 2004). Our categorization of signals is partly based on the 2013 COSO definition of internal control: "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of reporting and Compliance with applicable laws and regulations."

PML signals are grouped into four categories, of which the first three are based on this COSO internal control definition:

- **Governance:** signals dealing with an entity's board of directors, management, and other personnel, i.e., the people carrying out the processes. This includes signals on governance themes such as risk management and culture.
- **Operations:** signals dealing with the effectiveness and efficiency of operations. By COSO definition, this includes operations and financial performance goals and safeguarding assets against loss. This includes signals on both primary and administrative operations.
- **Reporting and compliance:** signals dealing with the reliability of reporting and compliance with applicable laws and regulations. By COSO definition, this includes internal and external financial and non-financial reporting.
- **Audit:** signals specifically aimed at accountants auditing entities in the sector.

Why deviate from a strong a concept, such as the Internal Control—Integrated Framework, and add the category Audit, focussing entirely on oneself? Even when formulating the initial aim of the PMLs, the NBA did not incorporate this area of risk specifically. The reason is that looking in the mirror did not come naturally to the auditors sharing their findings in the working groups; the first three PMLs did not include a signal aimed at how auditors could do better. We were asked by stakeholders to evaluate our own performance in the sector as well. Since external auditors can have an important role in an organization's risk management and control structure, as an "additional line of defense" (IIA, 2013), providing assurance to the organization's stakeholders. To acknowledge this role, we have to be willing to take a hard look at ourselves as well.

For the purpose of this study, the nine sector PMLs are shown separately from the two theme PMLs. Since risk management and tone at the top are governance themes by nature, it is likely that signals from these PMLs will fall into the governance category.

III.2. Classification of written reactions: sentiment analysis

In Study (2) we analyzed the sentiment of the 34 written from external stakeholder reactions in the 10 PMLs that contain reactions, thereby excluding the Tone at the Top PML. Because the theme still needed to be studied and discussed, that publication took the form of a discussion report, containing no reactions from stakeholders. They were invited to react to the report after publication.

Stakeholders were grouped according to their role in the sector, resulting in three stakeholder types: Authorities, (representing) users of information and (representing) preparers of information. In five of the 10 PMLs, all three types are represented. These three groups are, together with accountants, also present in Dutch consultation structures—as part of the Dutch "polder" mode—like the Dutch Accounting Standard Board (RJ).

The authors classified the polarity of the stakeholder reactions: whether an expressed opinion is negative, neutral, or positive. The aim of sentiment analysis is to determine the attitude of a writer—the sentiment subject—with respect to some topic or the overall contextual polarity of a document—the sentiment object (e.g. Pang, 2008; Kurtz, 2013). The subjects in our case are external stakeholders and the object is the PML at hand. Sentiment analysis can be done by both humans or an automated tool. For such a tool to be a reliable classifier, it needs to be trained on a vocabulary that is both comprehensive and relevant to the domain of the subject and object area being analyzed (Kurtz, 2013). Since such a trained model is not available for stakeholder reactions to PMLs, we opted for the human sentiment analysis method, with the two authors as classifiers. They have been working on PMLs from the beginning.

The classifiers independently reviewed the written reactions and, per paragraph, rated the contents with a - (negative), 0 (neutral) or + (positive). Highlighting key words that expressed a positive or negative attitude, such as "endorse," "support," or "appreciate" on the positive side or "disappointed," "strange," or "not adopted" on the negative end of the scale. Above that, the classifiers highlighted points that were strongly made by the stakeholder, but that were not included in the PML, even though words like "missed" were not used.

What does it mean when such a written reaction is classified as negative, neutral, or positive?

- Negative reaction: overall, the stakeholder doesn't agree with PML contents. This varies from disagreement with the overall signals or with specific recommendations. It can also mean that, in their opinion, other risks are more relevant for the sector.
- Neutral reaction: this varies from a sum of plusses and minuses resulting in a neutral reaction overall, or a neutral "Thank you for bringing these signals to our attention."
- Positive reaction: the stakeholder recognizes the signals in the PML and accepts the recommendations in general. Again, this can be the sum of more plusses than minuses, or an overall endorsement of PML contents.

See the two boxes below for examples.

- Negative reaction:

- "In my opinion, in the PML Secondary VET, external circumstances and parties are too simply and one-sidedly named as causes of risks. The role and responsibility of management, internal supervisors and accountants themselves is thereby left underexposed."

- Source: Inspectorate of Education reaction on PML Secondary VET PML, 2013

- Positive reaction:

- "We heartily support the initiative to produce a sector management letter. We feel that the first step in the right direction has been taken, which deserves a follow-up and deserves to be worked out in greater detail."

- Source: Dutch Central bank reaction on PML Insurance, 2010

III.3. Effectiveness analysis

- In Study (3) we analyzed the effectiveness of the 11 PMLs. Effectiveness is the degree to which something is successful in producing a desired result (Oxford Dictionaries). The desired result of PMLs is to fulfil the public role of accountants in society. The public role of accountants is to use their collective knowledge to identify, in a timely way, the strategic risks related to particular sectors or themes so that stakeholders can control them.
- For the NBA, this contains the following stages, in the time sequence in which they tend to occur:
 - Stage 0 PML: Identify risks in a PML, recognized by stakeholders
 - Stage 1 Publicity: Make a PML public
 - Stage 2 Accountants: Make accountants aware of the PML
 - Stage 3 Agenda: Put the PML on the agenda of stakeholders
 - Stage 4 Dialogue: Establish a regular dialogue with main stakeholders around PML signals
- Studies (1) and (2) analyzed Stage 0; Stages 1 to 4 are explored in Study (3). Note that we use "Accountants" in Stage 2 instead of "Auditors" because PML signals are also relevant for accountants in business, government accountants and internal auditors in the sector.
- A question that can be raised in this respect is: "Where does the responsibility of an auditor end?" Is it enough to identify risks and signal them? Or is there a responsibility (felt) to monitor progress, actively advocate the need to control these risks, or even assist stakeholders in doing so? This question is relevant for both individual auditors and for the collective of auditors writing a PML. In our view, a PML starts to be effective in Stage 3, when we are able to put the signals and recommendations on stakeholder agendas.

For every PML, the program team prepares a results sheet, incorporating elements such as publicity, follow-up actions from stakeholders and accountants, and quotes from stakeholders when they acknowledge or criticize PML signals and recommendations. Those result sheets were the basis for analyzing PML effectiveness.

The following measures for PML effectiveness are used for the four stages:

Stage 1:

- Publicity: degree to which a PML has become public, incorporating quantitative measures
- Number of printed copies and external downloads from NBA website (Dutch versions only)
- Published in Dutch daily newspapers such as the financial paper Het Financieele Dagblad (front-page or not) and in general newspapers
- Online publicity in general, sector, financial, or accountancy news sites

Stage 2:

- Accountants: a qualitative measure on the degree to which accountants are aware of and actively conveying the PML's message. This can take the form of:
 - Distributing the PML within their audit firm, among their clients in the sector, or within their organization when they are accountants in business, internal auditors or government accountants,
 - Incorporating the PML in professional education and training, and
 - Organizing themselves as sector accountants in a committee under the wings of the NBA.

Stage 3:

- Agenda: a qualitative measure on the degree to which we are able to put PML signals and recommendations on the agenda of the stakeholders they are aimed at. This can take the form of:
 - Stakeholder organizations distributing the PML among their individual members,
 - Presenting and discussing the PML in (internal) meetings of stakeholders,
 - Presenting the PML to (sector) congresses or participating in roundtables related to PML signals
 - Political agenda: questions to Dutch House of Representatives and to Ministers and their answers and General Consultation (AO) meetings related to PML signals.

Stage 4

- Dialogue: a qualitative measure on the degree to which we are able to establish a regular dialogue with our main stakeholders to mutually exchange knowledge. This can take the form of:
 - working closely together with specific stakeholders, for example in a platform, to implement PML recommendations, and
 - bringing PML signals together with other subjects relevant to a sector to create substance in the dialogue.

The authors reviewed the stages and scored them with a - (negative result), 0 (neutral or next to no result), + (good or positive result) and ++ (very good result). See the two boxes below for examples. The negative score was meant for cases where the PML contents were dismissed as irrelevant or of insufficient quality, either in the press or by stakeholders, but it was not needed in the overall scoring of the stages.

Negative example on accountants:

“First, a compliment: it is good that the professional organisation [of accountants] makes Tone at the Top a topic for discussion. If that is the intended function of such a report, we can say that the mission was successful. But no more than that. The report adds hardly anything to what has already been said and written on the subject. It is obligatory, predictable and hardly innovative.”

Source: Accountant.nl, blog Marcel Pheijffer re. NBA Tone at the Top publication (September 2012). Followed by 43 reactions in the days to follow, both agreeing and disagreeing with the message, and thereby one of the ‘most reacted on blogs’ on this Accountancy website in 2012

Positive example on agenda:

“Yes, I agree with the NBA that understanding of uncertainties of pension funds should improve.”

“At this time, the information provisions of the Pension Act are evaluated. When decisions are taken based on this evaluation, the advice of the NBA will be involved.”

Source: Answer Minister of Social Affairs and Employment to Dutch House of Representatives questions re. NBA Pensions publication (February 2011)

IV. Results

Subjects of study are the 11 PMLs, including 56 signals and 34 written reactions from stakeholders. Although the number of PMLs is small, they represent four years of hard work by (among others) 77 auditors taking part in the PML working groups. That is not enough for results to be fully representative, but results on the total group of PMLs are representative in our view. It is not expected that, once six more PMLs are added to the studies in two years' time, overall outcomes will change materially.

However, when results are broken down over sector and stakeholder type, outcomes need to be treated with caution and results are indicative. No hard conclusions were drawn for the two theme PMLs, since they both deal with governance themes and we received written reactions on only one of them. No PMLs were excluded from the sample, other than the one on tone at the top, which did not include written stakeholder reactions.

The methodological basis of the effectiveness analysis in Study (3) can be improved further and is the main topic of discussion in closing paragraph V.

IV.1 Categorization of signals

Study (1) supports Hypothesis (1) to a certain extent: it shows that PMLs identify risks in the areas of governance, reporting and compliance, operations, and audit. In three respects, PMLs do more than they initially set out to do. First, it is not so much specific finance risks that are signalled in PMLs, but rather risks that deal with the area of reporting and compliance, both financial and non-financial. Second, risks are not restricted to the area of administration, but deal with the wider area of effectiveness and efficiency of operations, whether they are administrative or not. Third, PMLs also incorporate signals specifically aimed at auditors themselves. Overall result: Sector PMLs identify risks in the areas of governance (38% of signals), reporting and compliance (32%), operations (17%), and audit (13%). As anticipated, theme PMLs are highly skewed towards governance (67%).

See Table 1 for further detail on the categorization of signals.

Governance: Nine out of 11 PMLs contain a signal on the quality of governance, addressing entrepreneurs and management as well as supervision. Professionalism of the finance function is signalled in three PMLs. It seems to be a logical consequence of selecting sectors that are either burning or smouldering that improvement is required in how organizations in those sectors are governed and/or managed.

Governance themes: Insufficient attention to risk management is a signal in four sector PMLs, so this theme seems to be on the agenda of accountants. In comparison, only the two earliest PMLs incorporate a signal related to culture, an element in the Tone at the Top publication. Even though we signal in that publication that "Accountants should always address tone at the top in their discussions with (top) management and the internal supervisory body," we do not signal specifically on one at the top regularly in other PMLs.

TABLE 1 - Categorization of signals: per (sub)category

Category	X ⁴ of 11	PML: Example of signals
Governance	11	
- Governance: quality of management, supervision as well as entrepreneurs	9	<i>Healthcare</i> : Focus on the quality of governance and risk management
- Professionalism of the finance function: planning and control or treasury activities	3	<i>Secondary VET</i> : Need for financial professionalism underestimate

Themes:		
- Insufficient (attention to) risk management	5	<i>Pensions</i> : Pension fund or investment institution: a shifting risk profile
- Insufficient attention to culture, soft controls, and other people aspects	4	<i>Tone at the Top</i> : Tone at the top is a prerequisite for good governance
Reporting and compliance	10	
- Valuation, mostly of fixed assets, such as property and land	5	<i>Commercial Property</i> : Structural vacancy levels threaten office market
- (Financial) reporting and disclosure: be more transparent in (annual) reports	5	<i>Good causes</i> : Good cause, accountable effect
- Rapidly changing or need for sector specificity in laws and regulations	3	<i>Pensions</i> : Don't change the rules during the game: cutbacks may prove unavoidable
Operations: effectiveness and efficiency	7	
- Insufficient attention to business risks: sustainability, innovation, international	3	<i>Transport & Logistics</i> : Sustainability and innovation pay the price
- High-quality Information Technology	3	<i>Insurance</i> : Limitations imposed by IT
- Cooperation in the chain when various parties work together to achieve a goal	2	<i>Municipalities</i> : When collaborating nobody appears to be responsible
Audit	8	
- Improve signalling capability: share knowledge of risks better	4	<i>Risk Management</i> : Accountants pay little attention to risk management
- Adopt professional scepticism attitude: be more critical	3	<i>Greenhouse Horticulture</i> : Accountant as critical adviser
- Need for specific sector knowledge	1	<i>Transport & Logistics</i> : Specific sector knowledge essential for accountants

4: Column X contains the number of the eleven PMLs that contain at least one signal in this (sub)category.

Reporting and compliance: 10 of the 11 PMLs incorporate at least one signal in this category, indicating the closeness to the auditor's work. Reporting signals address topics such as valuation of fixed assets and more transparency in reporting and disclosures, related to risks, effects, and timing of expenditure, for example. Compliance signals are mostly aimed at regulators and address the risk of rapidly changing laws and the need for sector specific regulations.

Operations: Seven sector PMLs incorporate at least one signal in the area of effectiveness and efficiency of operations, so auditors will keep the primary process in sight. They cover topics such as sustainability, innovation, internationalization, IT, and cooperation within the chain.

Audit: Signals aimed at auditors tend to follow NBA priorities over the years: professional scepticism in 2011/2012 and signalling capability in 2012/2013. Sector knowledge of accountants is treated as a prerequisite in most PMLs, with the exception of Transport & Logistics.

IV.2 Classification of written reactions: sentiment analysis

Study (2) supports Hypothesis (2): it shows that stakeholders' recognition of signals and acceptance of recommendations in a PML varies with the type of sector they are operating in (sector type) and their role within that sector (stakeholder type).

Overall result: A majority of external stakeholders (62%, 21 of 34) recognizes signals and accepts the recommendations in their PML, 15% are neutral and 23% do not agree with the PML's contents.

Sector type: Stakeholders reactions on PMLs are, on average, most positive in the two SME sectors (83%, 5 of 6), and least positive in the three PIE sectors (50%, 4 of 8). In between are the stakeholders' reactions set out in the four public and not-for-profit (NfP) sector (69%, 11 of 16). See Table 2 for further detail.

TABLE 2 – Classification of written reactions: per sector type

Sector type	Positive	Neutral	Negative	Nr of reactions
2 SME	83% (5)	17% (1)	0% (0)	(6)
4 Public & NfP	69% (11)	13% (2)	19% (3)	(16)
3 PIE	50% (4)	13% (1)	38% (3)	(8)
1 Theme	25% (1)	25% (1)	50% (2)	(4)
Average (Total)	62% (21)	15% (5)	23% (8)	(34)

The sector type is not only a deciding variable on average for stakeholder sentiment, but is almost an absolute predictor for PMLs published until the end of 2013: stakeholder sentiment is most positive for SME PMLs, followed by not-for-profit and public PMLs, and least positive for PIE PMLs.

Stakeholder type: Authority reactions on PMLs are, on average, most positive (83%, 10 of 12), preparers are least positive (46%, 6 of 13). In between are the reactions from users of information (56%, 5 of 9). A possible explanation is that PML signals tend to support authorities in their supervisory or regulatory role in sectors, since the majority of signals and recommendations are aimed at preparers. See Table 3 for further detail.

TABLE 3 – Classification of written reactions: per stakeholder type

Stakeholder type	Positive	Neutral	Negative	Nr of reactions
Authorities	83% (10)	8% (1)	8% (1)	(12)
Users of information	56% (5)	11% (1)	33% (3)	(9)
Preparers	46% (6)	23% (3)	31% (4)	(13)

It is striking that around one third of the reactions from prepares and users is negative, showing their disagreement with PML contents. Examples of their criticism are that signals are bleak in nature and other strategic subjects are more relevant (Insurance), not enough distinction is made in sub-sectors (e.g., Healthcare, Commercial Property) or specific stakeholder signals or recommendations being rejected, such as the "in control statement" for municipalities.

Classification process: After the first phase of the analysis, the two authors classified 82% of the reactions as the same. This is in line with research (Wilson, 2005) that shows that human classifiers typically agree just over 80% of the time. The remaining six reactions were all classified neutral by one author, and negative (4) or positive (2) by the other one; so never more than one “class” of difference. After discussing the classification of those six remaining reactions, the classifiers agreed on the more extreme choice—the negative or positive classification instead of the neutral one.

In the second half of 2012, the NBA consulted stakeholders in the Netherlands on the IAASB proposals for improving the auditor’s report. In a survey that gathered 235 responses, the statement was also put forward whether “PML’s help stakeholders to better understand risks in a certain industry.” The same trend emerged in this survey as in our Study (2): Authorities are most supportive of PMLs (75% agreed with the statement), followed by users (71%) and preparers (64%). From the 2012 survey we concluded that stakeholders value the information provided in PMLs.

Source: NBA Survey and NBA letter d.d. 12 October 2012 to IAASB, Mr. James Gunn

IV.3. Effectiveness analysis

Study (3) supports Hypothesis (3): it shows that PMLs can be an effective instrument for accountants to fulfil their public role. Not every PML is effective to the same degree, however, and effectiveness takes both time and hard work.

Overall result: Just more than half of PMLs are effective (6 of 11) in that they have reached at least the agenda stage. Study (3) results in the ranking as shown in Table 4, from most to least effective PML:

TABLE 4 – PML Effectiveness ranking

Effectiveness so far	PMLs	Year	Sector type
Most effective	Commercial Property Long-term Healthcare	2011 2010	PIE Public
Effective	Pensions Tone at the Top Transport & Logistics Municipalities	2011 2012 2013 2012	PIE Theme SME Public
Less effective	Secondary VET Insurance Risk Management	2013 2010 2013	Public PIE Theme
Least effective	Good Causes Greenhouse Horticulture	2012 2011	Not-for-profit SME

Time effect: It takes time for PMLs to be effective, and they rarely become very effective on their own accord. On average, it takes up to one year to reach the agenda stage, and up two years to fully reach the dialogue stage. There are exceptions, however, both positive and negative. PMLs, such as the one on pensions, that achieve a high priority on the political agenda very quickly. On the other hand, some PMLs never get to the agenda and dialogue stages at all, such as *Greenhouse Horticulture*. One of the consequences is that the three 2013 PMLs still have the opportunity to be made more effective.

No sector type/sentiment effect: There is a suggestion in the results that PMLs received with very positive sentiment by stakeholders, e.g., SME PMLs and *Good Causes* (see Study 2), are less effective on average, but because the PML *Transport & Logistics* was published only in 2013, this cannot be stated with certainty yet.

Highlights of effectiveness measures to illustrate scores:

Publicity

- At least 10,000 copies and downloads were made of all the Dutch PMLs. This is a conservative number, since downloads were measured only from April 2013 onwards. Five PMLs were printed or downloaded more than 1000 times.
- The *Het Financieele Dagblad* gave front-page coverage to the first four PMLs, but after that the news value of the initiative wore off. A further three PMLs were covered on the inner pages in 2012 and 2013, with a large spread for *Tone at the Top*.

- The PMLs *Commercial Property* and *Transport & Logistics* were covered in *De Telegraaf*, the most popular general Dutch newspaper.
- Online publicity on sector news sites was most positive for the two SME sectors.

Accountants: for six PMLs accountants rated six PMLs as "good" on actively conveying the PML message.

- A Big Four audit firm distributed the PML *Municipalities* externally to clients in the sector. The same applies for the PML *Transport & Logistics* by some smaller firms.
- The PML *Tone at the Top* has been distributed by a University Accountancy School to students for group discussion, and by at least one Big Four audit firm internally to all auditors.
- The PML *Insurance* has been used in an extensive Solvency II permanent education course (NBA).
- An independent committee of healthcare accountants (Coziek), working together with the NBA on PML *Long-term Healthcare*, became a NBA sector committee in the PML aftermath.

Agenda: six PMLs are scored as either good (3) or very good (3) in the agenda stage.

- The PML *Pensions* was presented by a leading accountant in a general pensions symposium (September 2011). See also positive example on agenda in paragraph III.3.
- The PML *Commercial Property* was discussed in a General Consultation (AO) meeting of the Dutch House of Representatives Finance Committee based on a letter from the Minister of Finance (October 2011): "An example of taking this responsibility is the PML with practical recommendations for property valuation, that the NBA has issued." A NBA representative presented accountants' views on property valuation in a roundtable organized by the Dutch Central Bank (DNB) and Authority Financial Markets (AFM) (April 2012).
- The PML *Secondary VET* was put on the agenda of various Ministry of Education, Culture, and Science committee meetings, focussing on the governance signals and accountants' signalling role. It was presented to Secondary VET directors and supervisors, as well as to RJ's Education working group (June 2013).

Dialogue: two most effective PMLs have arrived at the structural dialogue stage.

- The NBA founded the Valuers and Accountants Platform (PTA) in 2012 together with VastgoedCert. The platform was founded on the back of the NBA's PML *Commercial Property* (2011). The aim of the platform is to unite the knowledge and insights of both professional groups to create greater transparency when valuing real estate. In June 2013, PTA published *Well valued real estate*, with 28 recommendations for improving valuation and producing more transparent valuation reports. Oversight bodies DNB & AFM designated these recommendations as the standard to be used in commercial property valuation.
- The PML *Long-term Healthcare* led to a NBA-Alert at the beginning of 2011 on the valuation of healthcare property in financial statements. Thereafter, specific Care signals were combined with Care topics such as registration and declaration standards in the hospital sector and the effect on turnover (2013). The subjects have in common that changed regulation leads to uncertainty in financial statements, up to a point where auditors may have to issue a qualified opinion. Through these projects, accountants have created substance for such subjects, to be part of a structural dialogue with the Ministry of Health, the Healthcare Authority and financiers of the sector.

V. Conclusion And Discussion

V.1. Conclusion

The public role of accountants is to share their collective knowledge to identify strategic risks in particular sectors or themes in a timely manner, so that stakeholders have the opportunity to control them. In the wake of the global credit crunch, society has asked us to fulfil this gatekeeper's role. A PML is a collective management letter, written by auditors, made public. Our PMLs identify risks in the areas of governance, reporting and compliance, operations, and audit. The NBA in the Netherlands published 11 PMLs between mid-2010 and end of 2013. This paper shows that PMLs can be an effective instrument for accountants to fulfil their public role. Stakeholders' recognition of signals and acceptance of recommendations in a PML varies with the type of sector they are operating in and their role within that sector. To produce, publish, and follow-up on PMLs is a labour- and time-intensive process.

V.2. Discussion: further analysis on effectiveness

To measure the effectiveness of a publication such as a PML is a challenge for the accountancy profession as well as for other professions. The following areas could benefit from further research.

NBA aims to identify risks that need to be controlled in a timely manner. For this paper, we have not been able to analyze this timing element properly. Were PML signals on time, too late, or even too early for stakeholders to start to control them? The PML *Municipalities* is worth mentioning: published mid-2012, the first two signals “Stacking tasks, piling risks” and “Land development corporation’s losses undermine financial position” are fully (back) on the political agenda as of the beginning of 2014.

The timing element relates directly to whether or not *stakeholders are actually controlling these risks*, another point that we have not been able to analyze in detail. In a social context, it will always be difficult to separate out the contribution of a PML vs. other measures that stakeholders, such as authorities, take to manage risks. The NBA could benefit from the experience of other organizations, such as Dutch Court of Audit, in measuring research and publication effectiveness.

Most of the evidence on the degree to which *accountants are using PMLs* is anecdotal. Some audit firms mention PMLs in their annual Transparency Reports, recording how PMLs are used to structurally assess sector risks. This will be included in a 2014 NBA study on the quality of these Transparency Reports. Second, a survey among accountants could provide better insight as to how PMLs are used by our own members.

Time is a *key success factor* for PML effectiveness, but what are the other ones? From the studies so far, we have indications that key success factors could be:

- Topicality of a sector, to be taken into account in the selection process.
- “Stick to your trade”: Closeness of signals to the auditor’s expertise. All very effective PMLs contain a signal on valuation, for example, and quite a number of effective PMLs as well.
- “Without friction, no shine”: Effectiveness seems to benefit from signals that are (slightly) confrontational for specific stakeholders, in that they cannot easily say “Yes, we know that ...”

In 2014 and 2015, the NBA will publish six more PMLs. Repeating the studies from this paper in early 2016 will improve representativeness and provide further basis for key success factor research.

V.3. International applicability

In 2014, PMLs will be published in the Netherlands for Horeca (Hotel, Restaurant & Catering), life Sciences and banks. It could be argued that for sectors that are truly international, such as the financial sector, a multinational approach makes more sense. This could be explored in a knowledge sharing pilot by an international group of auditors of , for example global banks, organized under the wings of IFAC, resulting in a first international PML for the banking sector.

In their own words, the Institute of Chartered Accountants in England and Wales (ICAEW) has been inspired by the success of the NBA’s PMLs (www.icaew.com). In January 2013, ICAEW produced its first *Audit Insight*, “an opportunity for auditors to bring their knowledge of a market sector to the public, capturing more of the audit value for the public interest.” These reports differ from PMLs in certain aspects, but their intention is similar. *Audit Insights* focus more on market developments in a sector and do not incorporate stakeholder reactions, for example. With this paper, we hope to inspire accountants in other countries as well to fulfil their public role by publishing their own version of PMLs as part of their 2020 Vision.

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Go to <http://www.nba.nl/Actueel/projecten/Kennis-delen/> for original Dutch versions.