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Outcomes of the review of client and engagement acceptance or continuance at non-PIE audit firms



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Summary

Non-PIE audit firms perform the majority of statutory audits

The non-PIE audit firms have a market share of 55% of the total market of approximately 20,000 statutory audits in the Netherlands.¹ In addition to the 248² non-PIE audit firms, there are 6³ PIE audit firms.

The AFM has been responsible for the supervision of non-PIE audit firms since 1 January 2022

The Dutch Authority for the Financial Markets (AFM) has had sole responsibility for the supervision of non-PIE audit firms (audit firm(s)) since 1 January 2022. In this phase of its supervision, the AFM wishes to obtain deeper understanding of the risks for quality in this sector, to make audit firms aware of their current level of quality and to encourage the sector to make the necessary improvements to quality in the execution of statutory audits. The AFM aims to urge the audit firms to increase their ability to learn by citing good practices from the sector. Together with the sector, the AFM expects this to sustainably improve the quality of statutory audits.

Good client and engagement acceptance or continuance (CEAC) is an essential starting point for statutory audits

Client and engagement acceptance or continuance (CEAC) is an essential first quality safeguard of a statutory audit. The purpose is to ensure in advance that the audit firm and the statutory auditor are independent, that relationships with audit clients that lack integrity are avoided and that the competent employees, time and resources needed in order to carry out the statutory audit in an appropriate manner are made available.

If CEAC is not executed adequately or timely, it may be that the statutory auditor is not independent, the statutory auditor entered into a relationship with an audit client that lacks integrity and lacks the competent employees, time and resources needed in order to carry out the statutory audit in an appropriate manner. CEAC that is not adequate may result in a negative impact on the quality of the statutory audit. CEAC that is not adequate does not necessarily imply that the quality of the statutory audit is not adequate.

The AFM reviewed CEAC at 30 audit firms and for 83 statutory audits

The AFM has reviewed the policy and execution of CEAC at 30 audit firms, involving 83 statutory audits.

The review focused on the three main elements of CEAC

The review focused on the following three main elements of CEAC:

1. The independence of the auditor,⁴ focusing on:
 - 'Provision of non-assurance services': performance of a statutory audit in combination with non-assurance services, such as the preparation of financial statements or tax services (threat of self-review);
 - 'Long association'; a lengthy service relationship with an audit client (threat of familiarity);
2. The assessment of the 'integrity of the audit client' that the auditor will audit;
3. The assessment of the 'competent employees, time and resources' needed in order to carry out the statutory audit in an appropriate manner.

¹ Derived from the AFM Audit Firms Monitor in 2021.

² Derived from the Register of Audit Firms on 18 October 2022.

³ BDO Audit & Assurance B.V., Deloitte Accountants B.V., Ernst & Young Accountants LLP, KPMG Accountants N.V., Mazars Accountants N.V. and PricewaterhouseCoopers Accountants N.V.

⁴ Articles 18 to 20 and Article 28 of the Regulation on the Independence of Auditors in Assurance Engagements (Verordening inzake onafhankelijkheid van accountants bij assurance-opdrachten, or ViO).



Laws and regulations require that an audit firm and its statutory auditor⁵ assess these (and other) elements before accepting or continuing a statutory audit engagement.

Based on this review, the AFM is not able to assess the extent to which CEAC, including the measures applied by the statutory auditor, had an impact on safeguarding the quality of statutory audits. The AFM's review focused on CEAC and not the quality of the statutory audits.

Findings with respect to CEAC policy for more than half of the 30 audit firms

For 18 (60%) of the 30 audit firms, there were findings with respect to at least 1 of the CEAC policy elements in scope of the review. This is shown in Figure 1. A clear policy should ensure that the execution always meets the set quality requirements and laws and regulation. The policy should also ensure consistency in execution.

Figure 1. Number of audit firms with no or at least one finding on CEAC policy elements assessed



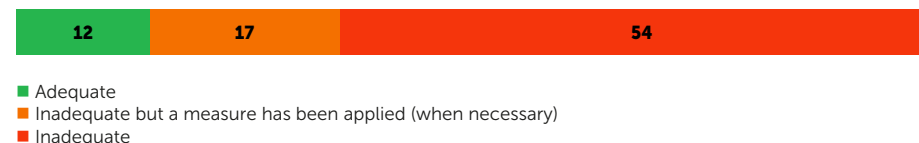
5 Under Section 12 of the Audit Firms (Supervision) Decree (Besluit toezicht accountantsorganisaties, or **Bta**), the audit firm is responsible for acceptance or continuance of engagements. Under NV COS 220.12, the external auditor must be convinced that appropriate procedures in relation to acceptance and continuance of client relationships have been followed and is obliged to establish that conclusions reached in this regard are justified. Our review showed that, in virtually all the CEAC procedures we studied, the external auditor made the final decision (in consultation with the audit firm) on the acceptance or continuance of a statutory audit engagement. Accordingly, the term 'external auditor' is used in some instances in this report instead of 'the audit firm' for the sake of readability.

71 of the 83 CEAC procedures reviewed were not adequate on the 3 main elements

Substantive findings on at least 1 of the 3 CEAC elements, and/or findings with respect to failure to assess these elements in a timely manner, were observed in 71 (86%) of the 83 statutory audits reviewed. For 54 of these 71 statutory audits, the assessment was not adequate and/or not timely (red). For 17 of these 71 statutory audits, the assessment was not adequate, but a measure was applied if necessary, and the assessment was timely (amber).

In 12 (14%) of the 83 statutory audits, all three CEAC elements were assessed as adequate, and the statutory auditor carried out their assessment in a timely manner. This is shown in Figure 2.


Figure 2. Number of statutory audits in which the CEAC assessment was adequate, not adequate with measure or not adequate



Policy also does not adequately ensure high-quality execution of the CEAC procedure

The AFM also noted that the CEAC policy at the audit firms was no adequate safeguard to ensure that the execution of CEAC for the statutory audits assessed complied with laws and regulations. The assessment showed that, at the audit firms in the review whose CEAC policy did comply with laws and regulations, the execution of CEAC did not always comply. At the audit firms whose CEAC policy did not comply with laws and regulations, the execution of the CEAC procedure rarely complied with laws and regulations.



 **CEAC needs to be improved, and the sector needs to work on this immediately: loudspeaker symbol**

Based on the outcomes of its review, the AFM concludes that CEAC procedures need to be improved and that the sector needs to address this immediately. These improvements (indicated by a loudspeaker) are required in the CEAC policy as well as in the execution of the CEAC procedures in the statutory audit. The AFM expects improvements to CEAC to apply to all audit firms, as the review of the AFM compromised a representative sample of the non-PIE audit firms.

 **The AFM observes and shares good practices: symbol of a writing pen**

At some of the audit firms reviewed, the AFM noted good practices with respect to the policy and execution of (parts of) CEAC. These good practices (indicated by with a writing pen) are included anonymously in this report, so that audit firms can learn from each other. The AFM urges the audit firms to reflect on the policy and execution of CEAC in their statutory audits, including the substance of the assessment and the timely completion of the assessment of CEAC and the implementation of possible improvements.

 **Possibilities for improving CEAC: symbol of stairs with arrow**

The AFM also sees opportunities for further strengthening CEAC. The AFM urges the audit firms to implement these improvements (indicated by a staircase and arrow) as part of their continuous improvement of their quality control system and execution of their statutory audits.

The AFM expects audit firms to quickly improve their CEAC procedures

The AFM expects audit firms to begin by studying the findings of this report and to review whether the policy and execution of the CEAC procedures in their statutory audits meets the requirements of laws and regulations and make the necessary improvements. The good practices and improvements included in this report could aid improving CEAC. The AFM also expects the audit firms to ensure that their employees have sufficient knowledge of the regulation governing the CEAC procedures and to offer training. This report can also serve as input for the education and training of (future) auditors.

The public expects auditors to be independent

The public needs to be able to rely on the issued opinion of statutory auditors and their audit reports. This begins with an adequate CEAC procedure as an essential quality safeguard. The public expects statutory auditors and audit firms to be demonstrably independent and to signal in a timely manner that audit clients lack integrity.

The AFM will actively monitor quality improvements in CEAC in the coming years and will design its future supervisory activities accordingly if necessary.

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Key terms

The following is a list of key terms that give context when reading this report.

Term	Note
Non-PIE audit firms	Audit firms with a licence from the AFM to perform statutory audits of clients that are not public interest entities.
PIE audit firms	Audit firms with a licence from the AFM to perform statutory audits of clients that are public interest entities and statutory audits of clients that are not public interest entities.
Policy	The aggregation of guidelines, procedures and work instructions.
Client and engagement acceptance or continuance	The assessment made by an audit firm before accepting or continuing an engagement to perform a statutory audit.
Qualification	A qualification is an opinion that states the extent to which CEAC in the statutory audit reviewed meets the requirements of laws and regulations.
Quality safeguards	The quality safeguards are methods, procedures and measures included in an audit firm's quality control system. They are meant to ensure that the statutory auditor who issues the audit opinion can do so in an expert, independent, principled and recognisable way.
Long association	The unacceptable threat of familiarity or self-review arising due to long association (in any case after a period of seven consecutive years of involvement) of a key assurance partner or other senior member of the assurance team in providing services to the same responsible party. ⁶
Non-assurance services	A non-assurance service is any form of service that does not qualify as an assurance engagement as stated in Article 1 of the Regulation on the Independence of Auditors in Assurance Engagements (Verordening inzake de independence van accountants bij assurance-opdrachten, 'ViO'). Examples of non-assurance services include the preparation of financial statements, administrative services, tax services and services relating to salary administration. ⁷
Provision of non-assurance services	The performance of an assurance engagement at an entity (that is not a public interest entity) if the audit unit or other part of the network provides or has provided a non-assurance service to that entity. ⁸
Quality control system	Among other things, a quality control system concerns procedures, descriptions and standards that are designed to safeguard compliance by an audit firm with regulations set by or pursuant to statute. ⁹

⁶ Regulation on the Independence of Auditors in Assurance Engagements (Verordening inzake de independence van accountants bij assurance-opdrachten, 'ViO'), Section 6.

⁷ NBA Practice Note 1131, Section 2.2: The term non-assurance service.

⁸ Regulation on the Independence of Auditors in Assurance Engagements (Verordening inzake de independence van accountants bij assurance-opdrachten, 'ViO'), Section 4.

⁹ Section 8a Bta.



Term	Note
Statutory audit	A statutory audit is an audit of the financial reporting of an enterprise for public use that is specifically designated as a statutory audit in the Audit Firms (Supervision) Act (Wet toezicht audit firms, or 'Wta'). This concerns the audit of financial statements of medium-sized and large companies, municipalities, provinces and various financial enterprises, for instance.

Qualifications

The following is a list of the qualifications with their associated colour codes as used by the AFM in this report.¹⁰

Qualification	Note
Green	Policy: compliance with laws and regulations. Execution of CEAC: compliance with laws and regulations.
Amber	Execution of CEAC: does not comply with laws and regulations due to assessment not being adequate; however, a measure has been applied when necessary.
Red	Policy: does not comply with laws and regulations. Execution of CEAC: does not comply with laws and regulations, because no measure has been applied or because the CEAC assessment was not made in a timely manner (applied only in Section 3.5).
Grey-green¹¹	The statutory auditor has assessed that no non-assurance services are provided and that long association does not apply with respect to the selected statutory audit.

¹⁰ The qualifications stated here do not apply to Section 3.6; an explanation of the qualifications used in Section 3.6 is given in that section.

¹¹ Qualification applies only for execution of CEAC in Sections 3.1 and 3.2.



01 Review of CEAC, an essential quality safeguard

The AFM has had sole responsibility for the supervision of non-PIE audit firms since 1 January 2022. There are around 248¹² of these audit firms.

The AFM has reviewed the client and engagement acceptance or continuance (**CEAC**) procedures at 30 non-PIE audit firms. Non-PIE audit firms need to act on this report. The AFM expects audit firms to reflect on their CEAC. In this report, the AFM lists improvements needed to comply with laws and regulations, offers possibilities for strengthening CEAC, and shares examples of good practice. This will enable audit firms to improve CEAC as a quality safeguard for the quality of their statutory audits.

CEAC is an essential quality safeguard for the quality of statutory audits

The procedure whereby audit firms¹³ accept or continue to perform statutory audits is an essential quality safeguard for the quality of their statutory audits. It is also a safeguard for controlled and ethical business operations (a requirement, for instance, of Sections 18 and 21 of the Audit Firms Supervision Act (**Wta**)).

An audit firm must carry out this assessment before accepting or continuing a client and a statutory audit.¹⁴ The assessment concerns independence, the integrity of the audit client and the availability of the necessary competent employees, time and resources. It is important that risks and threats are identified. The statutory auditor then has to apply appropriate measures to address these risks and threats. This may

involve the formation of separate teams or the use of an engagement quality control (**EQC**) reviewer before accepting or continuing the client and the statutory audit.

CEAC is also the foundation for the risk analysis of the statutory audit. If the assessment is not adequate or not timely, it will be difficult to address risks or threats at a later stage in the execution of the statutory audit. The audit firm will also not be able to apply adequate safeguards, as threats of self-review or familiarity with the audit client, for example, already occurred. A CEAC that is not adequate may as a result have a negative impact on the quality of the statutory audit.

The review focused on three elements of CEAC

A number of developments were identified from the AFM Monitor,¹⁵ among other sources:

- The threat of familiarity is more prevalent at non-PIE audit firms, due to the provision of non-assurance services and long association of the statutory auditor and/or other senior team members.
- Numbers of statutory audits are shifting from the PIE audit firms to non-PIE audit firms.
- The decline in the use of quality safeguards (such as an engagement quality control review, or **EQCR**) until the end of 2020 is not continuing.

¹² Derived from the Register of Audit Firms on 18 October 2022.

¹³ Under Section 12 of the Audit Firms (Supervision) Decree, the audit firm is responsible for acceptance or continuance of engagements. Under NV COS 220.12, the external auditor must be convinced that appropriate procedures in relation to acceptance and continuance of client relationships have been followed and is obliged to establish that conclusions reached in this regard are justified. Our review showed that, in virtually all the CEAC procedures we studied, the external auditor made the final decision (in consultation with the audit firm) on the acceptance or continuance of a statutory audit engagement. Accordingly, the term 'external auditor' is used in some instances in this report instead of 'the audit firm' for the sake of readability.

¹⁴ Section 12 Bta.

¹⁵ The AFM Audit Firms Monitor 2021 for non-PIE audit firms. The AFM Monitor is an annual survey.



Partly due to the above developments, this review focused on the following elements of CEAC:

- Independence, with specific focus on the provision of non-assurance services and long association;¹⁶
- The integrity of the audit client;
- The competent employees, time and resources needed.

These elements are also stated in Section 12 Bta, which deals with the acceptance and continuance of statutory audits.

The public expects auditors to be independent

The public relies on the auditor issuing an independent opinion. The public needs to be able to rely on the opinions stated by (statutory) auditors and audit firms in their audit reports. This begins with an adequately executed CEAC procedure as an essential first quality safeguard for a statutory audit. At this stage of the audit, the audit firm puts safeguards in place for matters such as the independence of the audit firm and the statutory auditor and avoiding relationships with audit clients that lack integrity. The public expects a statutory auditor to be demonstrably independent and to signal whether audit clients are not acting with integrity in a timely manner.

The audit opinion adds assurance to the financial statements and contributes to confidence in those financial statements on the part of many users, including banks, creditors, shareholders and owners. If they find out later that the auditor's opinion is not reliable, that the statutory auditor was not independent or that the statutory auditor entered into a relationship with an audit client that lacks integrity, this has a negative impact on public confidence in audit firms and the audit opinion. This in turn affects the entire audit sector and the financial markets.

Non-PIE audit firms perform the majority of statutory audits

The non-PIE audit firms have a market share of 55% of the total market of approximately 20,000 statutory audits in the Netherlands.¹⁷ In addition to the 248¹⁸ non-PIE audit firms, there are 6¹⁹ PIE audit firms.

Review and exploratory assessment

The AFM has carried out a review into whether the performance of CEAC in a number of statutory audits it reviewed complies with laws and regulations²⁰ and whether the policy of CEAC at the audit firm in question meets the requirements of laws and regulations.²¹ The AFM points out improvements needed to comply with laws and regulations²¹ and notes good practices in relation to CEAC at a number of the audit firms it reviewed that can serve as input for improvement. The AFM expects the audit firms to reflect on their own CEAC policy and its execution in their statutory audits and to introduce improvements.

The AFM also carried out an exploratory assessment to obtain an understanding of how the audit firms have designed and performed their CEAC procedures. Based on this exploratory assessment, the AFM observes opportunities for strengthening CEAC in various respects. The AFM urges the audit firms to implement these improvements as part of their continuous improvement of their quality control system and execution of their statutory audits.

Based on this exploratory assessment, the AFM is not able to assess the extent to which CEAC, including the measures applied by the statutory auditor, had an impact on safeguarding the quality of statutory audits. In particular, the AFM did not review whether CEAC ensured that sufficient and appropriate audit evidence was obtained in the statutory audits it reviewed (Standard 200.17).

¹⁶ Articles 18 to 20 and Article 28 of the Regulation on the Independence of Auditors in Assurance Engagements (Verordening inzake onafhankelijkheid van accountants bij assurance-opdrachten, or **ViO**).

¹⁷ Derived from the AFM Audit Firms Monitor in 2021.

¹⁸ Derived from the Register of Audit Firms on 18 October 2022.

¹⁹ BDO Audit & Assurance B.V., Deloitte Accountants B.V., Ernst & Young Accountants LLP, KPMG Accountants N.V., Mazars Accountants N.V. and PricewaterhouseCoopers Accountants N.V.

²⁰ Section 12 Bta and Articles 18 to 20 and 28 ViO.

²¹ Sections 12 and 13 Bta and Articles 18 to 20 and 28 ViO.



The AFM points out necessary improvements

Based on its assessment, the AFM notes the improvements necessary in order to comply with laws and regulations. In this report, these opportunities are indicated by a loudspeaker.



The AFM cites good practices

Based on its assessment, the AFM has identified examples of good practices in relation to CEAC at a number of the audit firms it reviewed. In this report, these good practices are indicated by a writing pen.



The AFM shares opportunities for strengthening

Based on its exploratory assessment, the AFM sees several opportunities for further strengthening of CEAC in the context of continuous improvement and optimisation of the system of quality control. In this report, these opportunities are indicated by a staircase and arrow.

Structure

The AFM describes the outcomes of its review in Section 2. Section 3 describes the review methodology.



02 Improvements to CEAC are needed, and the AFM shares good examples

Improvements to CEAC are needed to safeguard the independence of the audit firm and the statutory auditor, to ensure that relationships with audit clients that lack integrity are avoided and the competent employees, time and resources needed in order to carry out the statutory audit in an appropriate manner are available. CEAC is an essential quality safeguard for statutory audits. During its review, the AFM also observed good examples of CEAC at a number of the audit firms. These serve as input for improvement. The AFM also sees opportunities for improving CEAC in various aspects, in the context of continuous improvement of the quality control system and the execution of statutory audits.

The AFM has reviewed the policy of CEAC at 30 audit firms and the execution thereof in 83 statutory audits.

Outcomes of the review of the execution of CEAC

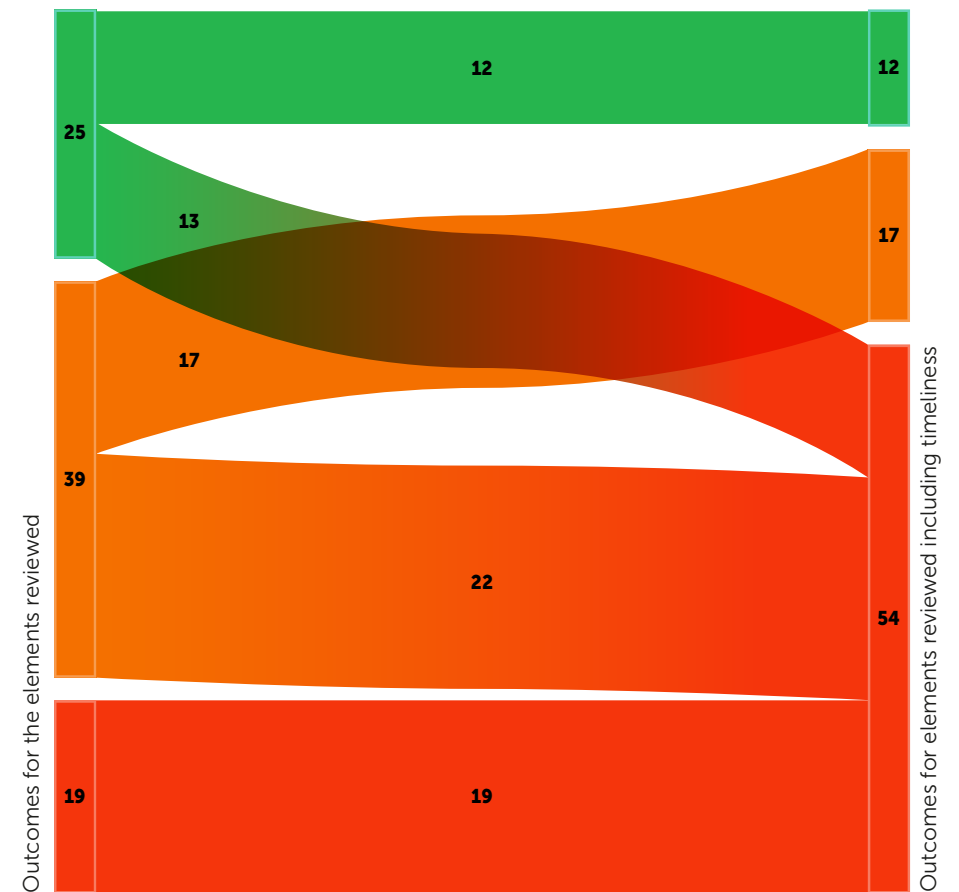
Figure 3 shows the outcomes of the review of the execution of CEAC with and without the aspect of timeliness. An audit firm must carry out an assessment before accepting or continuing a client and a statutory audit. This is the aspect of timeliness.

Outcomes on the elements reviewed

In 58 of 83 statutory audits reviewed, the assessment resulted in findings on at least 1 of the 3 elements of CEAC.

The assessment for 39 of these 58 statutory audits was not adequate, but a measure was applied if necessary. The assessment for 19 of these 58 statutory audits was not adequate.

Figure 3. Change in outcomes of the execution of CEAC without and with the timeliness aspect.





Outcomes including timeliness

If the aspect of timeliness is included, 71 of the 83 statutory audits reviewed were assessed as not adequate. For these 71 statutory audits, there were substantive findings on at least 1 of the 3 CEAC elements and/or findings with regard to failure to assess these elements in a timely manner.

For 54 of these 71 statutory audits in the review, the assessment was not adequate and/or not timely (red). For 17 of these 71 statutory audits, the assessment was not adequate, but a measure was applied if necessary, and the assessment was timely (amber).

For 12 of the 83 statutory audits in the review, all 3 CEAC elements were assessed as adequate and the statutory auditor carried out their assessment before the statutory audit was accepted or continued.

Sections 2.1 to 2.4 state the outcomes on the elements reviewed. Section 2.5 describes the change in outcomes if the timeliness aspect is included.

Outcomes from the review of the policy of CEAC

Figure 4 shows the outcomes of the review of the policy of CEAC. At 18 of the 30 audit firms reviewed, the CEAC policy did not comply with laws and regulations on at least 1 of the elements.

Figure 4. Outcomes for policy



Structure

Below, the AFM lists the outcomes and improvements for each of the three CEAC elements it reviewed, together with practical examples where applicable. The review outcomes for the three elements are presented in Sections 2.1 to 2.4, without taking account of whether the assessment prior to acceptance or continuation of the statutory audit by the statutory auditor had taken place. The two elements of

independence; 'provision of non-assurance services' is described in Section 2.1, and the element of 'long association' is described in Section 2.2. The integrity of the audit client is described in Section 2.3, and the competent employees, time and resources needed are addressed in Section 2.4.

Section 2.5 describes the review outcomes including the aspect of the timeliness of the CEAC assessment, and the outcomes regarding the policy of CEAC are presented in Section 2.6.

Appendix 1 contains the outcomes for each statutory audit on the three CEAC elements reviewed (Sections 2.1 to 2.4) and the timeliness of the assessment (Section 2.5).

2.1 Provision of non-assurance services

Before accepting or continuing an engagement for a statutory audit, the audit firm shall assess whether there are threats to independence and whether safeguards need to be applied to mitigate those threats.²² A threat to independence arises if the audit firm or network firm has provided a non-assurance service to the client²³ that has a material effect on the assurance object.²⁴ For instance, if it, or a part of the network preparing the financial statements, provides tax services and/or maintains the client's payroll. An audit firm must prevent any threat to its independence in the performance of statutory audits. This is important for the quality of its statutory audits and for ensuring that it has controlled and ethical business operations.²⁵

Figure 5 shows the number of statutory audits reviewed for which the provision of non-assurance services is assessed as complying or not complying with laws and regulations. These results do not take account of whether the assessment of the provision of non-assurance services was carried out in a timely manner.

²² Section 12(1)(b) Bta, Articles 18 to 20 ViO.

²³ Other than a PIE.

²⁴ Article 19 ViO.

²⁵ Article 21 Wta.



Figure 5. Outcomes for provision of non-assurance services

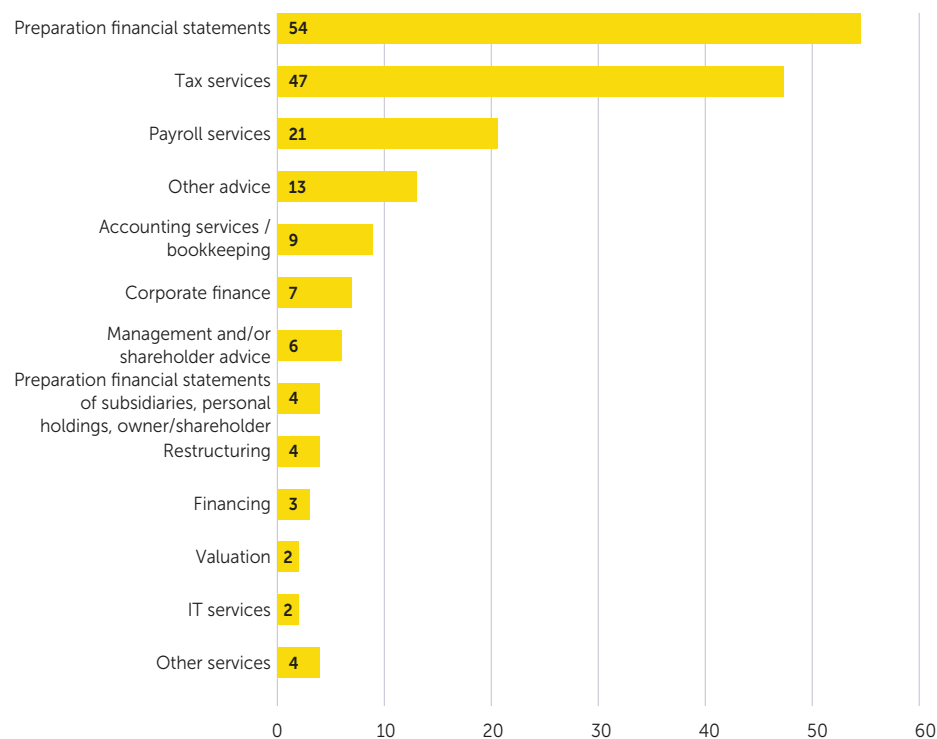


In 47 (30 amber and 17 red) of the 83 statutory audits reviewed, certain elements of the assessment of CEAC for the provision of non-assurance services did not comply with laws and regulations. For 17 of the 47 statutory audits, the assessment of the provision of non-assurance services was not adequate because there was no required measure for mitigation of threats to independence (red). For 30 of the 47 statutory audits, the assessment of the provision of non-assurance services was not adequate; however, a measure was applied (amber). The assessment of CEAC for the provision of non-assurance services was 'not adequate' relatively more frequently at smaller audit firms.

For 17 of the 83 statutory audits reviewed, the assessment was adequate and the audit firm had applied a required measure (green). For 19 of the 83 statutory audits reviewed, the assessment was adequate and the statutory auditor had assessed that there was no provision of non-assurance services (grey-green).

The evaluation of the provision of non-assurance services is important because the review shows that non-assurance services were provided in 77% (64 of the 83) of the statutory audits reviewed. Figure 6 shows the frequency of the provision of non-assurance services for the statutory audits reviewed. For some of the statutory audits, several types of non-assurance services were provided.

Figure 6. Frequency and type of non-assurance services provided



The most common findings relating to the execution of CEAC for the provision of non-assurance services are:

1. The identification of non-assurance services is not complete (Section 2.1.1).
2. The assessment of the provision of non-assurance services is not adequate (Section 2.1.2).
3. The lack of a measure to mitigate threats to independence (Section 2.1.3).





2.1.1 The identification of non-assurance services is not complete

In most of the statutory audits reviewed, the audit firms do not use a structured approach for identifying (non)-assurance services that they or another network firm provide to an audit client. This means that not all non-assurance services are included in the assessment or that the audit firm does not distinguish between various types of non-assurance services rendered.

The result is that the requirements of the Regulation on the Independence of Auditors in Assurance Engagements (VIO) are not considered for every type of non-assurance service. So, the statutory auditor performs the statutory audit, even though this may not be permitted in combination with the non-assurance service rendered, or the statutory auditor has not applied a required measure to ensure their independence in the performance of the statutory audit.

For example, the statutory auditor has identified that the audit firm prepares the financial statements and provides tax services and has assessed the provision of these services. The invoicing and hours registration, however, shows that the non-assurance service of 'restructuring' is also provided. The statutory auditor has not identified this non-assurance service and has therefore not assessed whether this constitutes a threat to independence.



The statutory auditor has to assess all the non-assurance services provided to determine whether there is a threat to independence and thus must identify all the services provided to the audit client.



One audit firm starts its assessment of the provision of non-assurance services by listing all the services provided to the statutory audit client. This is based on available information such as fees invoiced and the hours registered. The nature of each identified service is subsequently explained.



In its assessment of the provision of non-assurance services, one audit firm also considers foreign non-assurance services provided by a foreign network unit of the audit firm and any third party affiliated to the audit client. The work instructions used by the audit firm explicitly ask for confirmation by the statutory auditor regarding whether there is a threat to independence due to the provision of non-assurance services by foreign network firms and/or to a foreign third party affiliated to the audit client.



The statutory auditor can strengthen the identification of non-assurance services provided to the audit client by basing this on available information, such as recorded registration of hours and fees invoiced.



2.1.2 The evaluation of the provision of non-assurance services is not adequate

In 49 of the 83 statutory audits reviewed, the assessment of the provision of non-assurance services did not comply with Articles 18, 19 and/or 20 of the ViO.

Evaluation of participation in decision-taking (Article 18 ViO)

In 30 of the 49 statutory audits that did not comply, the assessment of participation in the audit client's decision-taking process was not adequate. This is required under Article 18 ViO. Performing a statutory audit is prohibited if the non-assurance service involves taking decisions regarding the assurance object and/or involvement in the audit client's decision-taking process.

One very common finding was that the statutory auditor did not evaluate this adequately because the nature and context of involvement in the decision-taking process were lacking.

For instance, the statutory auditor did not or did not adequately evaluate whether the audit firm was involved in decisions on crucial elements of the financial statements, such as the determination of the accounting policies for 'preparation of the financial statements'. Another example was that the statutory auditor did not or not adequately state explicitly what procedures they carried out for 'provision of tax services'. It was thus not clear whether the audit client or the statutory auditor had determined the variables and principles for the tax calculation.



The statutory auditor must assess whether there has been involvement in the decision-taking process in the provision of a non-assurance service to the audit client and record this assessment as substantiation for their conclusion as to whether the non-assurance service can be provided. The NBA Practice Note 1131 offers practical examples for this.

Evaluation of material effect (Article 19 ViO)

In 47 of the 49 statutory audits that did not comply, the assessment of material effect was not adequate. This is required under Article 19 ViO. A measure is required

if non-assurance services are provided that have a material effect on the assurance object.

One very common finding was that the statutory auditor did not adequately assess the material effect of the non-assurance service(s) provided on the financial statements. The nature and context for this element was missing in the assessment in many cases. For example, the statutory auditor concluded that there had been no material effect for 'preparation of the financial statements', even though there had been. Preparation of the financial statements of course has a direct effect on the assurance object. Another example was that, in the evaluation of 'tax services', 'salary administration' or 'restructuring', there was no explanation of why the statutory auditor had concluded that provision of these services had not had a material effect on the financial services.



The statutory auditor must assess whether there has been a material effect on the assurance object for each non-assurance service provided to the audit client. Their considerations in this respect must be evidenced to substantiate their conclusion. The statutory auditor should base their considerations on what would be considered as acceptable and adequate by an objective, reasonable and informed third party.²⁶ The NBA Practice Note 1131 offers practical examples for this.



In every statutory audit, the assessment made by the statutory auditor as to whether there have been threats to independence is reviewed by the Compliance Officer. In their review, the Compliance Officer reviews whether the description of the service provided to the audit client is complete, whether there has been provision of non-assurance services that are not permitted or whether a safeguard was required. This review is also recorded in the audit file.

²⁶ Article 5 ViO.



Several audit firms have a work instruction that requires a step-by-step plan to be followed for the assessment of non-assurance services in each statutory audit. For each non-assurance service, the questions stated in Appendix 1 'Flow diagram for provision of non-assurance services at non-PIEs' in the NBA Practice Note 1131 have to be completed. The statutory auditor has to attach an explanation for each question and the answer they have given. The outcome (e.g. provision permitted, permitted with safeguard, not permitted) is filled in automatically based on the answers given.

Assessment of specific prohibitions (Article 20 ViO)

In approximately half of the 49 statutory audits that did not comply, the assessment of the statutory auditor of whether specific prohibitions applied was not adequate.²⁷ This is required under Article 20 ViO. This assessment is required if the statutory auditor has assessed that a non-assurance service has had a material effect on the assurance object (Article 19 ViO).

A very common finding was that the assessment made by the statutory auditor and their conclusion had not been evidenced. Another very common finding was that the statutory auditor had not evaluated Article 20 because they had incorrectly concluded that there had been no material effect on the assurance object.

For example, the evaluation of 'corporate finance', 'financing' or 'restructuring' did not state why the statutory auditor concluded that the service in question had not had a material effect on the financial statements. It was not clear, for instance, whether the statutory auditor had negotiated contractual terms on the audit client's behalf for financing or whether it had assisted the audit client in restructuring negotiations.

²⁷ It is prohibited to perform an assurance engagement at a client if the audit firm or another network firm provides or has provided a non-assurance service that has a material effect on the assurance object to that client and this service: a) is subjective or not routine; b) has a treatment in the assurance object as a result, and the assurance team doubt whether this treatment is appropriate; or c) leads to an advocacy threat.



The statutory auditor must consider whether performance of the statutory audit is subject to prohibition, basing their considerations on what would be considered acceptable and adequate by an objective, reasonable and informed third party.²⁸ The NBA Practice Note 1131 offers practical examples for this.

2.1.3 Lack of any measure to mitigate a threat to independence

In 18 of the 49 statutory audits reviewed that did not comply, the statutory auditor did not apply any measure to mitigate a threat to independence. The statutory auditor in fact had not identified that a measure was required, or that the statutory audit may not be performed. Articles 18 and 20 of the ViO state the situations in which performance of a non-assurance service is prohibited. Article 19 states that a measure is required if there is a material effect.

A very common finding was that the statutory auditor had not identified that a measure was required. For example, the statutory auditor did not apply any measure for a non-assurance service with material effect, such as 'preparation of the financial statements', or did not apply the proposed measure. For example, the measure of 'segregated engagement teams' had been proposed, however the statutory auditor and/or members of the engagement team performed activities for both the statutory audit and the non-assurance service.

It was also found that the statutory auditor sometimes did not apply any adequate measure, such as application of a measure (such as an EQCR) once every three years or the engagement of a second auditor who was not an statutory auditor. For each year in which the audit firm identifies a threat, the firm must apply a measure of sufficient weight to ensure independent performance of the statutory audit.

²⁸ Article 5 ViO.





The statutory auditor must address threats arising from the provision of non-assurance services by applying appropriate measures. For example, having an EQCR performed with specific attention to the risks arising from the threat, or having separate teams so that the non-assurance service is provided by a different team than the team performing the statutory audit. The non-assurance service should not be provided under the responsibility of the statutory auditor. The NBA Practice Note 1131 offers practical examples for this.



One audit firm has developed a method of practical application of the ViO requirements for the provision of frequently occurring non-assurance services in combination with assurance services. For each non-assurance service, this states when provision of a service in combination with an assurance engagement is prohibited, or whether provision in combination is permitted and, if applicable, the internal measure and/or measure at the audit client that needs to be applied.

2.2 Long association

Before accepting or continuing a statutory audit, an audit firm must assess whether there are threats to the audit firm's independence and what has to be done to mitigate these threats.²⁹ A threat to independence arises if the statutory auditor and/or another senior member of the engagement team has had a lengthy involvement in the provision of services to the same audit client. A measure is required for this threat.³⁰ A threat is deemed to have arisen after seven consecutive years of involvement.

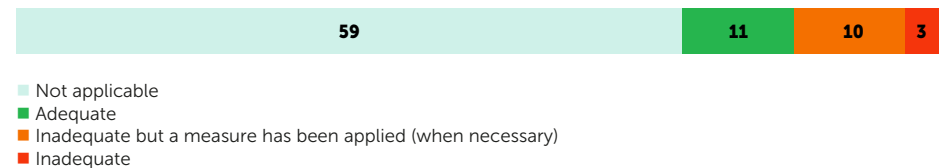
²⁹ Section 12(1)(b) Bta, Article 28 ViO.

³⁰ Article 28 ViO.

Preventing threats to independence is important for the quality of statutory audits and safeguarding controlled and ethical business operations at the audit firm.³¹

Figure 7 shows the number of statutory audits reviewed for which the assessment of long association is assessed as complying or not complying with laws and regulations. These results do not take account of whether the assessment of long association was carried out in a timely manner.

Figure 7. Outcomes for long association



In 59 of the 83 statutory audits reviewed, the statutory auditor assessed that there was no threat to the independence as a result of long association (grey-green).

In 11 of the 83 statutory audits reviewed, the assessment of long association complied with laws and regulations (green). In 13 of the 83 statutory audits reviewed, certain elements of the assessment of long association did not comply with laws and regulations (10 amber and 3 red).

Long association was applicable in 24 of the 83 statutory audits. For 19 of these 24 statutory audits, the long association concerned the statutory auditor. Figure 8 shows that the statutory auditors in these 19 statutory audits were involved for 8 up to 12 years or even longer. This is much longer than the seven years that is considered to form a threat to independence. The likelihood of this threat increases the longer a statutory auditor is involved in the provision of services to the client.

³¹ Article 21 Wta.





Figure 8. Involvement of statutory auditor in years



The most common findings relating to the execution of CEAC for long association are:

1. Inadequate substantiation for rebutting a presumed threat (Section 2.2.1).
2. No specific measure applied for an identified threat (Section 2.2.2).

2.2.1 Inadequate substantiation for rebutting a presumed threat

9 of the 13 statutory audits did not comply with Article 28(2) of the ViO. The substantiation for rebutting a presumed threat due to long association was not adequate. A threat is presumed to arise after a period of seven consecutive years of involvement. This can be rebutted by explaining the reason why a threat does not exist.

One very common finding was that substantiation for rebutting the assumed threat was either missing or not adequate. The circumstances considered by the statutory auditor, such as mitigating factors at the audit client or in the audit team, were not adequate. The evaluation of long association failed to include other senior members of the audit team, such as the EQC reviewer. As a result, the statutory auditor incorrectly failed to identify a threat due to long association and failed to apply a required measure.

Furthermore, many of the statutory audits did not include an annual written approval of this rebuttal from an officer appointed by the audit firm who was not involved in the provision of services to the audit client. This is required under Article 28(2) ViO.



- The statutory auditor must assess long association of all members of the audit team with substantive involvement in the performance of the statutory audit. In addition to the members of the audit team, this includes the EQC reviewer, persons giving technical advice and persons performing an internal quality review.³²
- In cases concerning seven or more consecutive years of involvement, the statutory auditor must record their reasons for stating that there is no threat to independence. The NBA Practice Note 1131 offers practical examples for this. The statutory auditor should base their substantiation on specific circumstances, such as changes in key positions at the audit client or changes to the audit team.



In its assessment of long association of a statutory auditor, with respect to a new client (for the firm), one audit firm took account of the fact that this statutory auditor had previously acted in this capacity for the same audit client for a different audit firm.



The statutory auditor can strengthen their evaluation of long association by documenting the number of years of involvement or documenting the first year of involvement instead of stating only that the number of years of involvement of (senior) team members amounts to less or more than seven years.

³² Article 1 ViO.



2.2.2 No specific measure applied for an identified threat

In some statutory audits reviewed that did not comply with Article 28(1) ViO, a measure had been applied for a recognised threat due to long association. This measure did not specifically address the risks arising from a threat of long association in all cases.

For instance, the statutory auditor applied an EQCR as a measure, but the EQCR did not specifically focus on the risks arising from the threat of long association. Another example was that an statutory auditor with more than 10 years' involvement added a second auditor to the engagement team who had relatively limited audit experience and was not involved in significant matters in the audit.



The statutory auditor must address threats due to long association by applying measures such as rotation of the statutory auditor or other members of the engagement team or carrying out an EQCR with specific attention to the risks arising from the threat. The NBA Practice Note 1131 offers practical examples of how to assess a threat to independence due to long association.



One audit firm monitors the length of the involvement of each statutory auditor in audit engagements at firm level. This approach identifies situations of long association in a timely manner so that safeguards can be put in place for threats to independence in statutory audits where this is relevant.



At several audit firms, the EQC reviewer devotes attention to the risks by focusing their assessment on the areas of attention arising from an identified threat of familiarity due to long association. The EQC reviewer establishes that an identified threat of familiarity due to long association may manifest in items in the financial statements involving estimates and in material risks identified by the statutory auditor. The EQC reviewer independently considers where they expect items involving estimates in the audit and whether the key material risks have been identified by the statutory auditor.

The EQC reviewer designs their work programme and carries out their assessment based on these outcomes. The EQC reviewer demonstrated that they had taken account of the threat due to long association in their assessment. In their concluding opinion, the EQC reviewer stated that the statutory audit engagement had been carried out independently by the statutory auditor with a sufficiently professionally critical attitude.



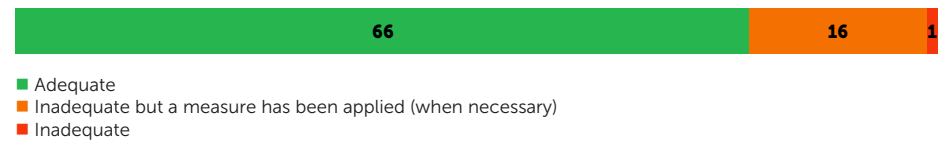


2.3 Integrity of the audit client

Before accepting or continuing a statutory audit, an audit firm must assess the integrity of the audit client. Among other things, this assessment ensures that no relationships with audit clients are entered into that could damage confidence in the audit firm or in the financial markets. Avoiding a situation in which the integrity of the audit client comes into question in the performance of a statutory audit is important for the quality of statutory audits and safeguarding controlled and ethical business operations at the audit firm.

Figure 9 shows the number of statutory audits reviewed for which the assessment of the integrity of the audit client is assessed as complying or not complying with laws and regulations. These results do not take account of whether the assessment of the audit client's integrity was carried out in a timely manner.

Figure 9. Outcomes for audit client integrity



In 66 of the 83 statutory audits reviewed, the assessment of audit client integrity complied with laws and regulations (green). In these statutory audits, the assessment of audit client integrity was adequate. In most of these statutory audits, various sources such as Internet searches and Corruption Perceptions Index were consulted. Various aspects of audit client integrity were also assessed, such as the integrity of the key management personnel and the nature of the business activities. The external auditor evidenced their conclusions and the procedures they carried out for the assessment of the audit client in the audit file.

In 17 of the 83 statutory audits reviewed, certain elements of the assessment for the integrity of the audit client did not comply with laws and regulations (16 amber and 1 red). The most common finding regarding the assessment for audit client integrity was that the procedures carried out by the statutory auditor were not evidenced.

Nature and context of the assessment not adequate

For 16 of the statutory audits reviewed, the assessment of audit client integrity was not adequate because the nature and context of the assessment was lacking. For one statutory audit, the assessment of audit client integrity was not adequate and no measure was applied. There were various signals in this statutory audit that the audit client could involve a higher integrity risk. The statutory auditor did not identify these signals and thus also failed to apply any appropriate measures.

The most common finding was that the statutory auditor included only a summary statement regarding their assessment of the audit client's integrity in the audit file. The nature and context of this assessment was lacking, however. In several of the statutory audits reviewed, the statutory auditor recorded whether the integrity of the audit client had been assessed with a simple 'yes' or 'no' without further procedures. In other statutory audits, only the conclusions resulting from the evaluations were recorded. The AFM considers the lack of the nature and context of the assessment to be an inadequacy because there is no evidence of the work performed by the statutory auditor when reaching their conclusions.



The statutory auditor has to carry out procedures to assess the integrity of the audit client and evidence these to substantiate their conclusion as to whether to accept or continue the engagement with the audit client or not.



One audit firm has a work instruction as to how to conduct a targeted search using Google. This includes the combination of search terms to be used and for whom the search has to be made. With this work instruction for its statutory audits, the audit firm ensures a consistent use of Internet searches, being one of the sources used for assessing the integrity of the audit client.



The statutory auditor can extend their assessment of the audit client's integrity by consulting multiple sources, including:

- Internet searches;
- Corruption Perceptions Index;
- shareholder register;
- UBO register; and
- background searches using an external party.



The statutory auditor can extend their assessment of the audit client's integrity by assessing various aspects, including:

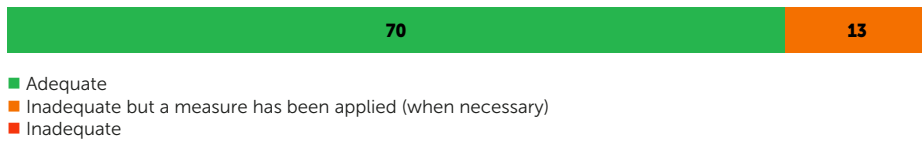
- the key holders of equity;
- key management personnel;
- those charged with governance;
- the nature of the business activities; and
- the region or countries in which these are conducted.

2.4 Competent employees, time and resources needed

Before an audit firm accepts or continues a statutory audit engagement, it must assess whether it possesses the competent employees, time and resources needed in order to carry out the statutory audit in an appropriate manner.³³ Among other things, this assessment prevents a situation in which insufficient capacity or competent employees are deployed. Avoiding a situation in which the availability of the competent employees, time and resources needed becomes an issue in the performance of a statutory audit is important for the quality of the statutory audits and safeguarding controlled and ethical business operations at the audit firm.

Figure 10 shows the number of statutory audits reviewed for which the assessment of the competent employees, time and resources needed is assessed as complying or not complying with laws and regulations. These results do not take account of whether the assessment of competent employees, time and resources needed was carried out in a timely manner.

Figure 10. Outcomes for competent employees, time and resources needed



In 70 of the 83 statutory audits reviewed, the assessment of the competent employees, time and resources needed complied with laws and regulations (green). For these statutory audits, the audit firm assessed that it had sufficient room in its business schedule to perform the engagement, looked into whether there was sufficient expertise in its audit team to perform the audit and engaged specialists where this was necessary. The statutory auditor evidenced their conclusions and the procedures they performed for the assessment in the audit file.

³³ Article 12(1)(c) Bta.



In 13 of the 83 statutory audits reviewed, certain elements of the assessment regarding the competent employees, time and resources needed did not comply with laws and regulations (amber). The most common finding regarding the assessment for the competent employees, time and resources needed was that the procedures performed by the statutory auditor to substantiate the conclusion of their assessment were not evidenced.

Nature and context of the assessment not adequate

The most common finding was that the statutory auditor included only a summary statement to the effect that they had assessed the competent employees, time and resources needed in the audit file. The nature and context of this assessment was lacking, however. In several of the statutory audits reviewed, the statutory auditor evidenced in the audit file whether the competent employees, time and resources needed had been assessed with a simple 'yes' or 'no' without further supporting procedures. The AFM considers the lack of the nature and context of the assessment to be an inadequacy because there is no evidence of the procedures performed by the statutory auditor to assess the competent employees, time and resources needed.



The statutory auditor has to perform procedures to assess the competent employees, time and resources needed and document these to substantiate their conclusion as to whether to accept or continue the engagement with the audit client or not.



Among other things, the statutory auditor could strengthen their assessment of the competent employees, time and resources needed by:

- Comparing the actual hours required for the statutory audit in the previous financial year with the estimated hours for the current year.
- Evaluating the competences and capacity to be added to the engagement team or experts to be engaged, such as an IT auditor, valuation expert or forensic expert.
- Assessing the quality of the internal controls at the audit client and delivery by the audit client before accepting or continuing the statutory audit.





2.5 Timeliness of the assessment

In Sections 2.1 to 2.4, the results of the CEAC review are presented without taking account of whether the statutory auditor’s assessment was carried out before the statutory audit was accepted or continued. This section states the review results including the aspect of timeliness.

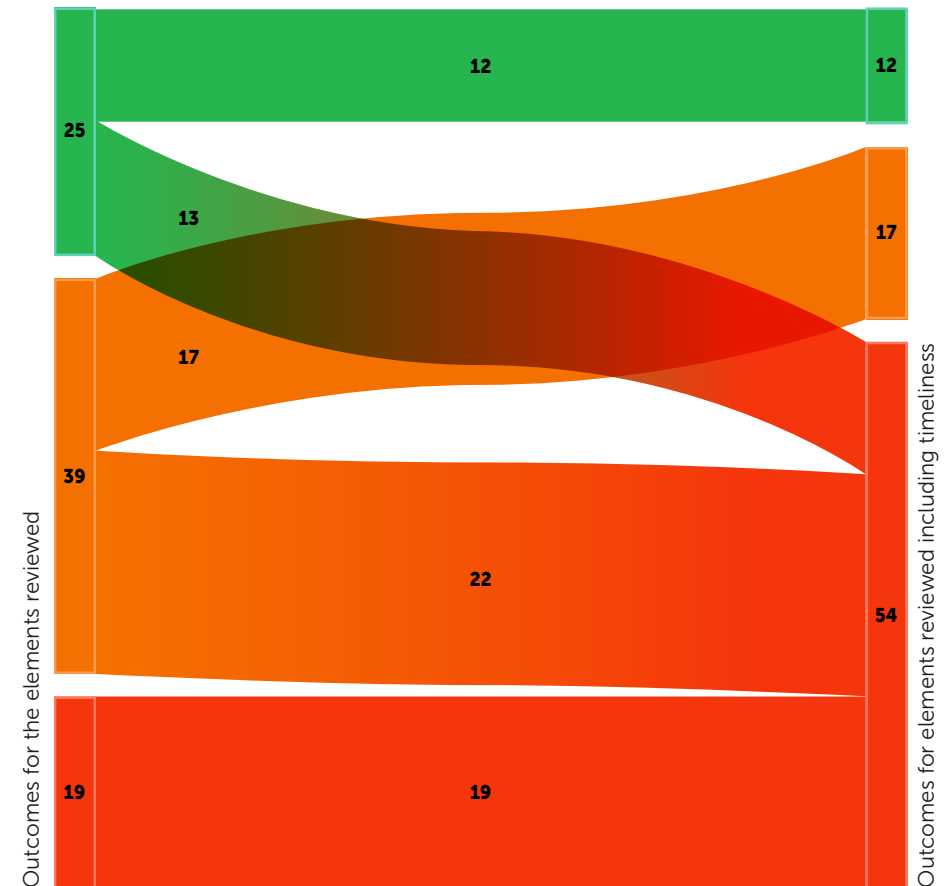
Figure 11 shows the effect of inclusion of the timeliness aspect on the review results. This shows that:

- For 25 of the 83 statutory audits reviewed, the assessment of CEAC was adequate (green). Of these 25 statutory audits, 12 were assessed as timely and 13 were not (shift to red).
- For 39 of the 83 statutory audits reviewed, the assessment was not adequate, but a measure had been applied where necessary (amber). Of these 39 statutory audits, 17 were assessed as timely and 22 were not (shift to red).
- For 19 of the 83 statutory audits reviewed, the assessment was not adequate and no measure was applied (red). The assessment was not timely in 11 statutory audits.

The assessment for the three CEAC elements reviewed was not timely

For 46 of the 54 statutory audits reviewed, the assessment was not timely for the three CEAC topics in scope of the review.³⁴ This happened, for example, when the statutory auditor sent the engagement confirmation to the audit client, interim or other audit procedures were performed or an inventory count was performed before the CEAC assessment had been completed.

Figure 11. Change in outcomes of the execution of CEAC without and with the timeliness aspect



³⁴ The outcomes of the review for each element in each statutory audit are shown in Appendix 1.





Regarding the elements reviewed, it is notable that:

- 46 CEAC assessments for the provision of non-assurance services were not timely (red), while approximately half (26) of these CEAC assessments were also found not to be adequate.
- 28 CEAC assessments for long association were not timely (red), but in the majority of these cases (20), there was no long association.
- 39 CEAC assessments for audit client integrity were not timely (red), while the vast majority of these cases (35) were assessed as adequate.
- 40 CEAC assessments for the competent employees, time and resources needed were not timely (red), while the vast majority of these cases (34) were assessed as adequate.

Timeliness needs to be improved

The timeliness of the assessment of CEAC needs to be improved, so that an audit firm can identify threats and risks before starting to perform the statutory audit. If the assessment is not adequate or not timely, it will be difficult (or at least more difficult) to address any risks or threats at a later stage in the performance of the statutory audit.



Before the statutory auditor accepts or continues a statutory audit, they have to assess the independence of the audit firm and the statutory auditor, the integrity of the audit client and the availability of the competent employees, time and resources needed.

The AFM urges the audit firms to review how they can introduce safeguards in their organisation to ensure that the statutory auditor completes the CEAC assessment in a timely manner before sending out the engagement confirmation or starting to perform audit procedures.

2.6 CEAC policy

An audit firm must have a quality control system.³⁵ Among other things, a quality control system includes procedures, descriptions and standards (hereinafter collectively referred to as the 'CEAC policy') and aims to safeguard the quality of statutory audits.³⁶

In 18 of the 30 audit firms in the review, the CEAC policy did not comply with laws and regulations on at least one of the elements reviewed. This is shown in Figure 12.

Figure 12. Outcomes for the CEAC policy



The most common findings for the CEAC policy were:

1. The policy did not meet the requirements of laws and regulations on one or more elements (Section 2.6.1).
2. The policy did not adequately safeguard that CEAC assessments for the statutory audits met the requirements of laws and regulations (Section 2.6.2).

³⁵ Section 18 Wta.

³⁶ Section 8 Bta.

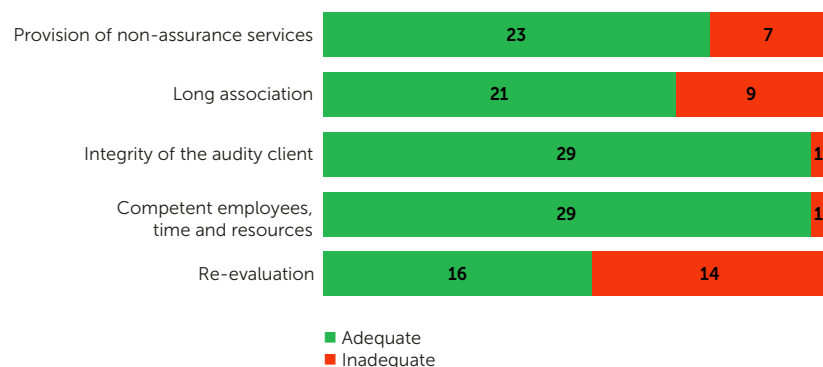




2.6.1 The policy did not meet the requirements of laws and regulations on one or more elements

The policy of CEAC at the 30 audit firms reviewed did not meet the requirements of laws and regulations on one or more elements. This is shown in Figure 13.

Figure 13. Outcomes for CEAC policy per element



Audit firms have to ensure that their CEAC policy complies with laws and regulations.

Provision of non-assurance services

At seven of the audit firms reviewed, the CEAC policy for assessment of the provision of non-assurance services lacked one or more elements that are required under laws and regulations. At several audit firms, the CEAC policy did not state that performance of a statutory audit at a client is prohibited if the audit firm or another network firm assumes management responsibility for the client that affects the assurance object or participates in the client's decision-taking process regarding the assurance object (Article 18 ViO).

In addition, not all the audit firms stated in their CEAC policy that a measure is required for a threat to independence if the audit firm or network firm provides or has provided a non-assurance service that has a material effect on the assurance object (Article 19 ViO).

At several audit firms, the CEAC policy did not state that performance of a statutory audit at a client³⁷ is prohibited if the audit firm or network firm provides or has provided a subjective or non-routine non-assurance service that has a material effect on the assurance object and this leads to treatment in the financial statements such that the engagement team has doubts regarding its appropriateness or this leads to an advocacy threat (Article 20 ViO).

Long association

At nine of the audit firms reviewed, the CEAC policy for assessment of long association lacked one or more elements that are required under laws and regulations. At several audit firms, the CEAC policy did not state that the statutory auditor has to apply a measure in cases of long association (Article 28(1) ViO).

Moreover, not all the audit firms stated in their CEAC policy that substantiation is required for rebutting the threat of long association in cases where there has been involvement of the statutory auditor or another senior member in the statutory audit for the same client for a period of seven consecutive years (Article 28(2) ViO).

Audit client integrity and competent employees, time and resources needed

Almost all the audit firms reviewed included the elements required by laws and regulations for the assessment of the integrity of the audit client and the competent employees, time and resources needed. The laws and regulations governing the assessment of audit client integrity and the competent employees, time and resources needed is limited. The AFM assessed whether the CEAC policy at the audit firms reviewed included the requirements of Section 12 Bta.

³⁷ Other than a PIE.



These requirements are that an audit firm must record that it has assessed the competent employees, time and resources needed and the integrity of the audit client before accepting or continuing a statutory audit. The AFM also reviewed whether the CEAC policy states that this assessment should be recorded in writing.

Re-evaluation

The CEAC policy at 14 audit firms for re-evaluation after acceptance or continuance was not adequate. Several audit firms have not stated in their CEAC policy that they will terminate a statutory audit if, during the period covered by the financial statements, an audited entity is acquired by, merges with or acquires another entity and the requirements regarding independence are not met. This concerns the identification and evaluation of all current and recent interests and relationships, including non-assurance services provided to the entity and the measures to be applied. This is a requirement of Section 13 Bta.

2.6.2 The CEAC policy did not adequately ensure that CEAC executed for the statutory audits met the requirements of laws and regulations

The audit firms reviewed did not adequately ensure that the execution of their CEAC policy met the requirements of laws and regulations in the statutory audits reviewed. The review showed that, at the audit firms in the review whose CEAC policy did comply with laws and regulations, the performance of the statutory audit did not comply in all cases (amber in Figure 14). At the audit firms whose CEAC policy did not comply with laws and regulations, performance rarely complied with laws and regulations (yellow in Figure 14).

Figure 14. Comparison of outcomes of CEAC policy and statutory audits



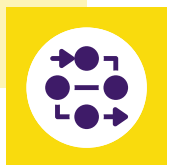
For 5 of the 83 statutory audits reviewed, the CEAC policy of the audit firm in question and its execution in one or more statutory audits complied with laws and regulations (green). For 7 of the 83 statutory audits, the CEAC policy did not or did not fully comply with laws and regulations, but one or more statutory audits did comply (yellow).

For 30 of the 83 statutory audits reviewed, the CEAC policy complied with laws and regulations, but one or more statutory audits did not (amber). For 41 of the 83 statutory audits reviewed, both the CEAC policy and one or more statutory audits did not or did not fully comply with laws and regulations (red).



An audit firm has to ensure a clear and well-defined CEAC policy that safeguards that the CEAC assessment meets the quality requirements set and complies with laws and regulations.

A clear and well-defined policy has to ensure that the CEAC assessment meets the quality requirements set and complies with laws and regulations at all times. The policy should also ensure consistency in execution. The AFM wishes to remind audit firms that they have to ensure that their CEAC policy complies with laws and regulations and ensure that the execution of CEAC in statutory audits complies with laws and regulations.



03 Description of the review methodology

CEAC is a requirement under Section 12 Bta, which states that an audit firm must carry out an assessment before accepting or continuing with a client or statutory audit. Among other things, the audit firm and the statutory auditor have to assess any threats to its/their independence,³⁸ the integrity of the audit client³⁹ and whether the competent employees, time and resources needed can be made available.⁴⁰

3.1 Selection of audit firms and statutory audits

The AFM selected 30 non-PIE audit firms for its review. This selection of 30 audit firms is a representative sample of the total population of non-PIE audit firms at 1 January 2022 that performed at least one statutory audit during 2021.⁴¹

The statutory audits at the 30 audit firms selected were selected randomly, based on the following criteria:

- The CEAC procedure for the selected statutory audit was completed in the period between 1 July 2021 and 28 February 2022;
- Selection of at least one client and/or engagement acceptance (if available);
- Selection of at least one client and/or engagement acceptance or continuance in cases involving the provision of non-assurance services (if available);
- Selection of up to three statutory audits per audit firm;
- If all the statutory audits were performed by the same statutory auditor, up to two statutory audits were selected;
- If the selected audit firm performed one statutory audit, one statutory audit was selected.

³⁸ Section 12 Bta, Articles 18, 19, 20, 28 ViO.

³⁹ Section 21 Wta, Sections 12, 32(1) Bta.

⁴⁰ Section 12 Bta.

⁴¹ Derived from the AFM Audit Firms Monitor 2021 for non-PIE audit firms.

The AFM selected 83 statutory audits based on these criteria for both statutory audits in progress (67 of the 83) and completed statutory audits (16 of the 83) for which a CEAC procedure had been completed.

3.2 The review focused on three elements of CEAC

In its review, the AFM focused on three elements of CEAC:

- Independence (provision of non-assurance services and long association);
- the integrity of the audit client; and
- the competent employees, time and resources needed.

These elements correspond to the market developments described in the Audit Firms Monitor.⁴² The evaluation of these three elements moreover forms an essential (initial) safeguard for the quality of a statutory audit. In its evaluation of independence, the AFM focused on two subjects in the ViO: long association and the provision of non-assurance services. The AFM also included the timeliness of the assessment⁴³ and the written record thereof in its review.⁴⁴

⁴² The AFM Audit Firms Monitor 2021 for non-PIE audit firms.

⁴³ Section 12.1 Bta.

⁴⁴ Section 12.2 Bta.



3.3 Outcomes presented with qualification in grey-green, green, amber or red

The AFM has presented the outcomes of its assessment with qualifications in grey-green, green, amber or red. For each of the elements reviewed, it is shown whether the CEAC policy complies with laws and regulations (green) or does not comply with laws and regulations (red).

For each of the statutory audits reviewed, it is shown whether the CEAC assessment for each of the selected elements complies with laws and regulations (green), does not comply with laws and regulations because the assessment was not adequate, but a measure was applied if necessary (amber), or does not comply with laws and regulations because no measure was applied (red) or it was not performed before the statutory audit was accepted or continued. It is also shown whether the provision of non-assurance services or long association is applicable to the statutory audit (in grey-green). The review involves both an assessment part and an exploratory part.

Assessment part of the review

In the assessment part of the review, the AFM established whether the policy of CEAC at the audit firms reviewed complies with laws and regulations. The AFM also assessed whether the CEAC procedure for the statutory audits reviewed complied with laws and regulations on the three review elements.

Exploratory part of the review

In its exploratory assessment, the AFM obtained an understanding of the policy and execution of CEAC in 83 statutory audits. How had the statutory auditor evaluated the three elements in the review when executing CEAC? Did the statutory auditor use standard questionnaires or other templates? On what information did the statutory auditor base their decision?

The exploratory part of the AFM's review did not involve reaching an opinion with regard to CEAC. The exploratory assessment can lead to observations that offer understanding of how an audit firm could strengthen the policy and execution of CEAC for the three review elements.

3.4 The AFM based its review on document analysis, interviews and data

The AFM based its assessment of whether the CEAC policy with respect to the three review elements complied with laws and regulations on documentation it received and an interview with the audit firm in question. For the statutory audits reviewed, the AFM evaluated whether CEAC complied with laws and regulations on the elements of independence, audit client integrity and competent employees, time and resources needed. The AFM based its evaluation on documentation in the audit file, among other things.

3.5 Reporting on the outcomes of the review

Draft firm-specific review reports

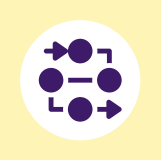
During the review period, the AFM circulated draft firm-specific review reports among the audit firms concerned, including the outcomes of its assessment and exploratory assessment. These draft firm-specific review reports are confidential.

Response from the audit firms to the draft firm-specific reports

After receiving the draft firm-specific review reports, the audit firms were given the opportunity to submit their responses in writing. In these responses, they were able to state that they consider the facts stated to be incorrect or incomplete, stating their reasons and supported by information where necessary.

AFM assessment of responses and final firm-specific review reports

The AFM reviewed the responses of the audit firms. This may have led to adjustments to the facts, findings and conclusions stated in the draft firm-specific review reports. The AFM has included the results of its assessment of the responses from the audit firms to the draft firm-specific review reports in final review reports. The final conclusions and findings from the review were sent to the audit firms in mid-November 2022. These final firm-specific review reports are confidential.



The AFM reminded them of their responsibility to remedy the deficiencies and to apply measures to prevent them occurring in future. The AFM has not assessed the remediation procedures resulting from its findings in this review.

Public report

The audit firms concerned have had the opportunity to indicate factual inaccuracies in this public report. The AFM has accordingly amended the report where relevant.

3.6 The AFM acknowledges the limitations of its review

There are inherent limitations due to the manner in which the review was conducted, including with regard to the conclusions that can be drawn from the outcomes.

No comprehensive review

The AFM has not carried out a comprehensive review of all aspects of CEAC. The AFM based its observations on an interview with the audit firm and the documentation and data provided for each element of the review. The AFM did not assess whether the audit client or statutory audit had correctly been accepted or continued. The results stated in this public report should be seen in this context. The absence of comments or remarks should therefore not be understood to mean that no other omissions may exist.

No opinion regarding the quality of the statutory audits

The AFM is not able to assess the extent to which CEAC, including the measures applied by the statutory auditor, had an impact on safeguarding the quality of statutory audits. In its review, the AFM did not establish whether there is a causal connection between CEAC and the quality of statutory audits. The AFM also did not consider whether CEAC ensured that sufficient and appropriate audit evidence was obtained in the statutory audits.

No statistical sample taken

The AFM selected a representative sample of the population of non-PIE audit firms for this review. The AFM did not take a statistical sample. The AFM has not drawn any conclusions regarding the quality of all CEAC procedures at non-PIE audit firms. Based on its review, the AFM expects that its findings will apply to all audit firms.





Appendix 1 Outcomes of CEAC per statutory audit

Qualification	Provision of non-assurance services (2.1)	Long association (2.2)	Integrity of the audit client (2.3)	Competent employees, time and resources needed (2.4)	Statutory audit excluding timeliness	Timeliness	Statutory audit including timeliness (2.5)
Green ●	17 ●	11 ●	66 ●	70 ●	25 ●	37 ●	12 ●
Grey-green ●	19 ●	59 ●	0 ●	0 ●	0 ●	0 ●	0 ●
Amber ●	30 ●	10 ●	16 ●	13 ●	39 ●	0 ●	17 ●
Red ●	17 ●	3 ●	1 ●	0 ●	19 ●	46 ●	54 ●

Statutory audit	Provision of non-assurance services (2.1)	Long association (2.2)	Integrity of the audit client (2.3)	Competent employees, time and resources needed (2.4)	Statutory audit excluding timeliness	Timeliness	Statutory audit including timeliness (2.5)
1	●	●	●	●	●	●	●
2	●	●	●	●	●	●	●
3	●	●	●	●	●	●	●
4	●	●	●	●	●	●	●
5	●	●	●	●	●	●	●
6	●	●	●	●	●	●	●
7	●	●	●	●	●	●	●
8	●	●	●	●	●	●	●
9	●	●	●	●	●	●	●
10	●	●	●	●	●	●	●
11	●	●	●	●	●	●	●
12	●	●	●	●	●	●	●
13	●	●	●	●	●	●	●
14	●	●	●	●	●	●	●
15	●	●	●	●	●	●	●



Statutory audit	Provision of non-assurance services (2.1)	Long association (2.2)	Integrity of the audit client (2.3)	Competent employees, time and resources needed (2.4)	Statutory audit excluding timeliness	Timeliness	Statutory audit including timeliness (2.5)
16	●	●	●	●	●	●	●
17	●	●	●	●	●	●	●
18	●	●	●	●	●	●	●
19	●	●	●	●	●	●	●
20	●	●	●	●	●	●	●
21	●	●	●	●	●	●	●
22	●	●	●	●	●	●	●
23	●	●	●	●	●	●	●
24	●	●	●	●	●	●	●
25	●	●	●	●	●	●	●
26	●	●	●	●	●	●	●
27	●	●	●	●	●	●	●
28	●	●	●	●	●	●	●
29	●	●	●	●	●	●	●
30	●	●	●	●	●	●	●
31	●	●	●	●	●	●	●
32	●	●	●	●	●	●	●
33	●	●	●	●	●	●	●
34	●	●	●	●	●	●	●
35	●	●	●	●	●	●	●
36	●	●	●	●	●	●	●
37	●	●	●	●	●	●	●
38	●	●	●	●	●	●	●
39	●	●	●	●	●	●	●
40	●	●	●	●	●	●	●
41	●	●	●	●	●	●	●
42	●	●	●	●	●	●	●
43	●	●	●	●	●	●	●
44	●	●	●	●	●	●	●
45	●	●	●	●	●	●	●
46	●	●	●	●	●	●	●
47	●	●	●	●	●	●	●
48	●	●	●	●	●	●	●
49	●	●	●	●	●	●	●



Statutory audit	Provision of non-assurance services (2.1)	Long association (2.2)	Integrity of the audit client (2.3)	Competent employees, time and resources needed (2.4)	Statutory audit excluding timeliness	Timeliness	Statutory audit including timeliness (2.5)
50	●	●	●	●	●	●	●
51	●	●	●	●	●	●	●
52	●	●	●	●	●	●	●
53	●	●	●	●	●	●	●
54	●	●	●	●	●	●	●
55	●	●	●	●	●	●	●
56	●	●	●	●	●	●	●
57	●	●	●	●	●	●	●
58	●	●	●	●	●	●	●
59	●	●	●	●	●	●	●
60	●	●	●	●	●	●	●
61	●	●	●	●	●	●	●
62	●	●	●	●	●	●	●
63	●	●	●	●	●	●	●
64	●	●	●	●	●	●	●
65	●	●	●	●	●	●	●
66	●	●	●	●	●	●	●
67	●	●	●	●	●	●	●
68	●	●	●	●	●	●	●
69	●	●	●	●	●	●	●
70	●	●	●	●	●	●	●
71	●	●	●	●	●	●	●
72	●	●	●	●	●	●	●
73	●	●	●	●	●	●	●
74	●	●	●	●	●	●	●
75	●	●	●	●	●	●	●
76	●	●	●	●	●	●	●
77	●	●	●	●	●	●	●
78	●	●	●	●	●	●	●
79	●	●	●	●	●	●	●
80	●	●	●	●	●	●	●
81	●	●	●	●	●	●	●
82	●	●	●	●	●	●	●
83	●	●	●	●	●	●	●



Any questions or comments about this publication?

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