



## Firm-specific conclusions and findings

Attached to [Report on 'Quality of PIE audit firms'](#)

## Contents

1.	Introduction	3
2.	Deloitte Accountants B.V. (Deloitte)	4
2.1	Background information	4
2.2	Findings per pillar	4
2.3	Findings per statutory audit	5
3.	Ernst & Young Accountants LLP (EY)	10
3.1	Background information	10
3.2	Findings per pillar	10
3.3	Findings per statutory audit	11
4.	KPMG Accountants N.V. KPMG	20
4.1	Background information	20
4.2	Findings per pillar	20
4.3	Findings per statutory audit	21
5.	PricewaterhouseCoopers Accountants N.V. PwC	30
5.1	Background information	30
5.2	Findings per pillar	30
5.3	Findings per statutory audit	31
6.	Accon avm controlepraktijk B.V. (Accon)	36
6.1	Background information	36
6.2	Findings per pillar	36
7.	BDO Audit & Assurance B.V. (BDO)	37
7.1	Background information	37
7.2	Findings per pillar	37
8.	Baker Tilly Berk N.V. (BTB)	38
8.1	Background information	38
8.2	Findings per pillar	38
9.	Mazars Paardekooper Hoffman Accountants N.V. (Mazars)	39
9.1	Background information	39
9.2	Findings per pillar	39

[Part 1: Report on 'Quality of PIE audit firms'](#)

[Part 3: Appendices](#)

## 1. Introduction

The following presents the principal conclusions and findings for each PIE audit firm. These are listed in alphabetical order firstly for the Big 4 audit firms and secondly for the other PIE audit firms. The responses of these PIE audit firms are available on the AFM website.<sup>1</sup>

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<sup>1</sup> Refer to the [AFM website](#).

## 2. Deloitte Accountants B.V. (Deloitte)

### 2.1 Background information

The table below shows certain features and key figures for Deloitte.<sup>2</sup>

1	Number of persons in charge of day-to-day policy	4
2	Number of supervisory directors	4 independent members
3	Number of statutory audits	124 of PIE audit clients and 2,013 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>3</sup>	1,085
5	Number of IQRs	69
6	Total fees charged to audit clients	€118 million
7	Total revenue Deloitte Accountants B.V.	€203 million
8	Total revenue Coöperatief Deloitte U.A.	€785 million

The response from Deloitte is available on the AFM website.<sup>4</sup>

### 2.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Nearly in line with expectation	Nearly in line with expectation	Short with expectation	Nearly in line with expectation	Nearly in line with expectation	Nearly in line with expectation	In line with expectation	In line with expectation	In line with expectation	Nearly in line with expectation

<sup>2</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2015-2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which Deloitte has provided information to the AFM on its most recently concluded financial year, in this case the financial year ending at 31 May 2016. The information in line 8 is derived from the 2015/2016 financial statements of Coöperatief Deloitte U.A.

<sup>3</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>4</sup> See the [response from Deloitte](#).

## 2.3 Findings per statutory audit

Based on the findings as described below, the AFM concluded that the statutory auditor concerned failed to obtain sufficient substantiation for his opinion with respect to the financial statements in three of the eight inspected statutory audits. These statutory auditors did not carry out sufficient procedures to obtain sufficient appropriate audit evidence on significant and material items and subjects in the financial statements concerned prior to issuing their audit opinion. The quality safeguards of Deloitte on the statutory audits performed by the statutory auditors in question did not prevent or detect the AFM's findings in a timely fashion.

In its inspection, the AFM inspected elements of the following statutory audits.

Audit client	AFM conclusion	Market segment	Financial year	EQC R	Internal quality review	First-year or last-year audit
A	'adequate'	PIE	2014	Yes	Yes	n.a.
B	'adequate'	PIE	2015	Yes	No	n.a.
C	'adequate'	PIE	2015	Yes	No	First-year
D	'adequate'	Large non-PIE	2014	Yes	Yes	n.a.
E	'inadequate'	(Semi-)public institution	2014	Yes	No	n.a.
F	'inadequate'	(Semi-)public institution	2015	Yes	No	n.a.
G	'inadequate'	Other non-PIE	2014	Yes	Yes	Last-year
H	'adequate'	Other non-PIE	2015	No	No	n.a.

### Audit client E

Audit client E is a municipality.

The statutory auditor failed to obtain sufficient appropriate audit evidence regarding the lawfulness of E's tender procedures and the valuation of the land developments.

### Lawfulness of the tender procedures

The statutory auditor assessed risks of material misstatement in connection with the lawfulness of the tender procedures (according to European directives) and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of reviewing the procedures implemented and conclusions drawn by E and documenting his own conclusion. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out procedures to establish whether the tenders had been lawfully conducted. The statutory auditor only reviewed the procedures implemented and conclusions drawn by E;
- carry out sufficient procedures to establish the reliability of the overviews received from E.

### Valuation of land developments

The statutory auditor assessed risks of material misstatement in connection with the valuation of the land developments and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of procedures in relation to the purchase and sale of land and using of the work of a valuation expert for assessing the plausibility of assumptions in the calculation of the valuation of land developments. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- evaluate whether the procedures of the valuation expert were adequate for the purposes of his audit. The statutory auditor failed to establish, as an example, the nature and scope of the procedures of the valuation expert;
- adequately evaluate and follow up on the findings of the valuation expert;
- carry out procedures in relation to the land developments that were not part of the procedures of the valuation expert;
- carry out adequate procedures in relation to the loss provision for the land taken into use.

### Audit client F

Audit client F is a company operating in the recycling industry.

The statutory auditor failed to obtain sufficient appropriate audit evidence on the occurrence, the accuracy and the completeness of the revenue from recycling and on the completeness of the revenue from the sale of steam and electricity.

### Occurrence, accuracy and completeness of revenue from recycling

The statutory auditor assessed risks of material misstatement in relation to the occurrence, accuracy and completeness of revenue from recycling. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of reviewing the logical access security and application controls, testing that internal controls had operated effectively, reconciling overviews from the operating system with the overviews from the financial administration, establishing the calibration of weighbridges, observations on site and carrying out tests of details on prices. The execution of the tests of controls and substantive audit procedures on relevant elements was inadequate. The statutory auditor failed to:

- establish that the logical access security and application controls of the operating system on which he relied in his audit had operated effectively. The statutory auditor did not adequately establish whether the internal controls relating to the logical access security and application controls of this operating system, in which the weights and prices of input are recorded, were implemented correctly and consistently and failed to obtain sufficient understanding of the design of the logical access security and application controls;
- establish whether officers had carried out tasks or authorisations that went further than necessary for their functions. In the execution of his procedures regarding the logical access security, the statutory auditor actually established that several officers were authorised to change data in the operational system;
- carry out procedures on a significant portion of the received and weighed input. After making observations on site on the basis of a limited portion of the received and weighed input, the statutory auditor drew conclusions with respect to the entire population. The results of his procedures could however not be projected for the entire population because he did not take a sample;
- carry out procedures on all selected items (elements) in his sample in order to test the accuracy of the prices, as a result of which the results of his procedures could be projected for the entire population.

### Completeness of revenue from the sale of steam and electricity

The statutory auditor assessed risks of material misstatement in connection with the revenue from the sale of steam and electricity and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of enquiries at an external facility of the counterparty to which F supplies steam and electricity. F records the revenue from the sale of steam and electricity on the basis of overviews from the counterparty to which F supplies the steam and electricity. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to carry out procedures with respect to the completeness of the revenue from steam and electricity other than making enquiries at the external facility of the counterparty to which F supplies steam and electricity.

### Audit client G

Audit client G is a construction company.

The statutory auditor failed to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the project revenues and project expenses and the valuation of construction contracts, regarding the valuation of the works in progress and inventory of finished goods and regarding the financial information of a significant component.

## Accuracy and completeness of project revenues and project expenses and valuation of construction contracts

The statutory auditor assessed risks of material misstatement in connection with the occurrence and completeness of the project revenues and project expenses and the valuation of construction contracts and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing that an internal control in relation to project monitoring had operated effectively, the conduct of project-related discussions with management, the carrying out of so-called back-testing procedures, the execution of tests of details on projects and the conduct of on-site observations regarding the progress of construction contracts. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant items. The statutory auditor failed to:

- establish that the internal control in relation to project monitoring on which he relied in his audit had operated effectively. The statutory auditor failed to adequately establish whether this internal control had been implemented by G accurately and consistently. The statutory auditor did not establish whether the analysis and discussion of the project monitoring had been sufficiently detailed, while this analysis and discussion was part of the internal control tested by him for operating effectiveness;
- carry out sufficient procedures on the reported and expected project revenues (including contract variations) because the statutory auditor did not adequately test the reasonableness of the assumptions by and information from management and did not carry out any procedures on the completeness of the contract variations;
- carry out procedures on the expected project expenses of construction contracts;
- adequately verify information from management during his observation on site;
- carry out procedures on the loss provision reported.

## Valuation of works in progress and inventory of finished goods

The statutory auditor assessed risks of material misstatement in connection with the valuation of the works in progress and the inventory of finished goods and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of discussing the estimated valuation of the works in progress and the inventory of finished goods with management and obtaining of underlying documentation. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to adequately assess the reasonableness of the estimate by management of the valuation of the works in progress and the inventory of finished goods. The statutory auditor did not verify or adequately test the information from management and the assumptions underlying the estimates.

## Financial information on a significant component

The statutory auditor assessed risks of material misstatement in connection with the financial information on a significant component and qualified these risks as significant. The project revenues and project expenses of this component were material for the representation of the financial statements as a whole. Several parties cooperate in this component. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of discussing a financial overview with management, reconciling the financial overview with the consolidation statement, carrying out procedures in relation to cash and making inquiries from management regarding the loss provision. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out sufficient procedures on the numbers in the financial overview and establish whether the other parties participating in the significant component agreed with the data in the financial overview;
- verify the information from management regarding the loss provision and carry out other procedures to establish the accuracy and completeness of the loss provision;
- establish whether the project designated as completed had actually been completed;
- establish the completeness of the projects reported in the administration.

### 3. Ernst & Young Accountants LLP (EY)

#### 3.1 Background information

The table below shows certain features and key figures for EY.<sup>5</sup>

1	Number of persons in charge of day-to-day policy	7
2	Number of supervisory directors	4, of which 3 are independent
3	Number of statutory audits	229 of PIE audit clients and 2,676 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>6</sup>	230
5	Number of IQRs	38
6	Total fees charged to audit clients	€198 million
7	Total revenue Ernst & Young Accountants LLP	€420 million
8	Total revenue Ernst & Young Nederland LLP	€649 million

The response from EY is available on the AFM website.<sup>7</sup>

#### 3.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Well short with expectation	Well short with expectation	Well short with expectation	Short with expectation	Short with expectation	Well short with expectation	Nearly in line with expectation	Well short with expectation	In line with expectation	Well short with expectation

<sup>5</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which EY has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 30 June 2016. The information in line 8 is derived from the 2015/2016 financial statements of Ernst & Young Nederland LLP.

<sup>6</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>7</sup> See the [response from EY](#).

### 3.3 Findings per statutory audit

Based on the findings as described below, the AFM concluded that the statutory auditor concerned failed to obtain sufficient substantiation for his opinion with respect to the financial statements in six of the eight inspected statutory audits. These statutory auditors did not carry out sufficient procedures to obtain sufficient appropriate audit evidence on significant and material items and topics in the financial statements concerned prior to issuing their audit opinion. The quality safeguards of EY on the statutory audits performed by the statutory auditors in question did not prevent or detect the AFM's findings in a timely fashion.

In its inspection, the AFM inspected elements of the following statutory audits.

Audit client	AFM conclusion	Market segment	Financial year	EQCR	Internal quality review	First-year or last-year audit
A	'inadequate'	PIE	2014	Yes	No	n.a.
B	'adequate'	PIE	2015	Yes	No	n.a.
C	'adequate'	PIE	2015	Yes	Yes	First-year
D	'inadequate'	Large non-PIE	2014	Yes	No	n.a.
E	'inadequate'	Large non-PIE	2015	No	Yes	n.a.
F	'inadequate'	Large non-PIE	2014	Yes	Yes	n.a.
G	'inadequate'	(Semi-)public institution	2014	Yes	Yes	n.a.
H	'inadequate'	Other non-PIE	2015	No	No	n.a.

#### Audit client A

Audit client A is banking institution.

The statutory auditor failed to obtain sufficient appropriate audit evidence regarding the valuation of the loans to customers and the related completeness of the provision for irrecoverable loans.

#### Valuation of loans to customers and related completeness of the provision for irrecoverable loans

The statutory auditor assessed risks of material misstatement in connection with the valuation of the loans and the completeness and accuracy of the provision for irrecoverable loans and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, the execution of a substantive analytical procedure and tests of details on the provision for irrecoverable loans. In addition, the statutory auditor made use of a valuation expert for the assessment of the valuation of the collateral for

the loans provided and for the assessment of the reasonableness of the assumptions for the estimate of the provision for irrecoverable loans by the management of A. The execution of the tests of controls and substantive audit procedures were inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor failed to adequately establish whether these internal controls had been correctly and consistently implemented by A. Regarding these internal controls, the statutory auditor also failed to obtain sufficient understanding of the design of the internal controls or did not evaluate whether these internal controls were sufficiently accurate in order to prevent or detect and correct a material misstatement;
- adequately evaluate the reasonableness of the assumptions made by management of A with respect to the provision for irrecoverable loans. The statutory auditor only made enquiries regarding the selected loans, but failed to verify the representations provided by A;
- adequately evaluate the relevance, completeness and accuracy of the source data used by the valuation expert. The statutory auditor did not actually verify the origin of this source data and failed to assess the source data for completeness and consistency;
- adequately evaluate and follow up on the findings of the valuation expert;
- carry out the substantive analytical procedure on the provision for irrecoverable loans in sufficient depth, by previously evaluating whether the expectation was sufficiently accurate, determining the threshold amount of any difference that would be acceptable without further investigation, adequately investigating the differences and testing these against the underlying data;
- carry out a retrospective assessment of the previous' year estimate for the provision for irrecoverable loans.

#### Audit client D

Audit client D is a trading company.

The statutory auditor failed to obtain sufficient appropriate audit evidence regarding the occurrence, accuracy and completeness of revenue, regarding the existence of receivables and inventory. In addition, the statutory auditor failed to obtain sufficient appropriate audit evidence regarding possible non-compliance by D with laws and regulation.

#### Occurrence, accuracy and completeness of revenue

The statutory auditor assessed risks of material misstatement in connection with the occurrence, the accuracy and the completeness of revenue and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, the execution of a substantive analytical procedure on revenue and margins,

tests of details on deliveries and prices and an assessment of the correct cut-off of revenue. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor did not establish that these internal controls had operated throughout the financial year. The statutory auditor also failed to establish the reliability of the information which he used in his tests of these internal controls. For one of these internal controls, the statutory auditor also failed to obtain sufficient understanding of the design of the internal control and did not evaluate whether this internal control was sufficiently accurate in order to prevent or detect and correct a material misstatement;
- execute the substantive analytical procedure in sufficient depth, by previously evaluating the reliability of the data on which his expectation was based, by evaluating whether the expectation was sufficiently accurate and determining the amount of any difference that would be acceptable without further investigation;
- execute substantive audit procedures to establish that each delivery had led to recognised revenue;
- establish the reliability of the price list he used in his tests of details on the prices.

#### Existence of receivables

The statutory auditor assessed risks of material misstatement in relation to the existence of receivables. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, carrying out interim procedures on the receivables population and obtaining information on the development of the receivable items between the end of the third quarter and the end of the financial year. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor did not establish that these internal controls had operated throughout the financial year. The statutory auditor also failed to establish the reliability of the information which he used in his tests of these internal controls.
- carry out procedures with respect to the existence of the receivables. For his audit of the existence of the receivables at the end of the financial year, the statutory auditor actually only made use of audit evidence that he had obtained regarding the existence of the receivables at the end of the third quarter. The statutory auditor additionally did not request any further external confirmations from the receivables of D and did not carry out a verification of origin or a subsequent receipts test on the outstanding balance of the receivables item at the end of the year.

## Existence of inventory

The statutory auditor assessed risks of material misstatement in relation to the existence of inventory. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively and the execution of a substantive analytical procedure on inventory. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor did not establish that these internal controls had operated throughout the financial year. The statutory auditor also failed to establish the reliability of the information which he used for his tests of these internal controls. Regarding several internal controls, the statutory auditor failed to obtain understanding of the design of these internal controls;
- procedures such as a physical inventory count to establish the existence of inventory at the end of the financial year;
- execute the substantive analytical procedure in sufficient depth, by evaluating whether the expectation was sufficiently accurate and determining the amount of any difference that would be acceptable without further investigation;

## Possible non-compliance by D with laws and regulation

The statutory auditor assessed risks of material misstatement in connection with the breaching of internal controls by the management of D and qualified these risks as significant. The statutory auditor identified a possible non-compliance with laws and regulation by D during his audit. The statutory auditor only carried out substantive audit procedures in order to verify the possible non-compliance with laws and regulation by D. These procedures consisted of making enquiries at D regarding the findings of the internal investigation carried out by D, obtaining information from D's own legal counsel and its external legal counsel and reviewing a letter to D regarding the potential non-compliance with laws and regulation. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- obtain sufficient understanding of the nature of the action and the circumstances of the potential non-compliance with legislation and regulation by D;
- adequately evaluate the consequences for his opinion of not being in a position to obtain sufficient appropriate audit evidence because the management of D had limited the statutory auditor. For instance, D did not provide access to the report on the internal investigation and did not provide access to the full letter on the potential non-compliance with laws and regulation;
- evaluate the consequences of the potential non-compliance with laws and regulation and take appropriate actions.

## Audit client E

Audit client E is a services provider.

The statutory auditor failed to obtain sufficient appropriate audit evidence over the occurrence, the accuracy and the completeness of the revenue.

### Occurrence, accuracy and completeness of revenue

The statutory auditor assessed risks of material misstatement in relation to the occurrence, the accuracy and the completeness of revenue. He qualified these risks as significant with regard to the occurrence and the completeness. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, the execution of a substantive analytical procedure on revenue and margins, the carrying out of tests of details on credit notes, verifying whether the cut-off of the revenue was correct and tests of details on sale transactions. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor did not adequately establish whether these internal controls had been implemented by E correctly and consistently. Regarding several of these internal controls, the statutory auditor also failed to obtain sufficient understanding of the design of the internal controls and for some of these internal controls did not evaluate whether these internal controls were sufficiently accurate in order to prevent or detect and correct a material misstatement. In addition, he failed to establish the reliability of the information which he used in his tests of several of these internal controls;
- execute the substantive analytical procedure in sufficient depth, by evaluating whether the expectation was sufficiently accurate, determining the amount of any difference that would be acceptable without further investigation and verifying explanations by E of differences found;
- carry out procedures to establish whether the sale transactions underlying the credit notes had been credited correctly and for the correct amounts;
- carry out procedures on a significant portion of revenue. After carrying out tests of details on the basis of a limited portion of revenue, the statutory auditor drew conclusions with respect to the entire population. The results of his procedures could however not be projected for the entire population because he did not take a sample;
- verify the explanations received from E with respect to the differences identified in the tests of details on revenue.

## Audit client F

Audit client F is a company operating in the waste collection and processing sector.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the accuracy and completeness of the revenue.

### Accuracy and completeness of revenue

The statutory auditor assessed risks of material misstatement in relation to the accuracy and the completeness of revenue. He qualified these risks as significant with regard to completeness. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, the execution of substantive analytical procedures on revenue and margins and tests of details on weights and charges. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor did not adequately establish whether these internal controls had been implemented by F correctly and consistently. For one of these internal controls, the statutory auditor also failed to obtain sufficient understanding of the design of this internal control and did not evaluate whether this internal control was sufficiently accurate in order to prevent or detect and correct a material misstatement. In addition, he failed to establish the reliability of the information which he used in his tests of these internal controls;
- execute the substantive analytical procedures in sufficient depth, by evaluating in advance whether the expectations were sufficiently accurate, determining the amount of any difference that would be acceptable without further investigation and verifying explanations received from F with respect to movements;
- carry out substantive audit procedures on the primary recording of charges and weights;
- carry out procedures on a significant portion of the charges and weights. After carrying out tests of details on the basis of a limited portion of the charges and weights, the statutory auditor drew conclusions with respect to the entire population. The results of his procedures could however not be projected for the entire population because he did not take a sample. The statutory auditor also failed to establish the reliability of the information which he used in his procedures.

## Audit client G

Audit client G is a municipality.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the occurrence, the accuracy and the lawfulness of the procurement costs, the lawfulness of the tenders and the valuation of the land developments.

## Occurrence, accuracy and lawfulness of the procurement costs

The statutory auditor assessed risks of material misstatement in relation to the occurrence, the accuracy and the lawfulness of the procurement costs. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, the execution of a substantive analytical procedure on income and expense items and tests of details on the balance sheet items creditors and cash and cash equivalents. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out procedures to establish that the procedures of the internal audit department of G which he used were adequate for the purposes of his audit;
- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor did not adequately establish whether these internal controls had been implemented by G correctly and consistently. For several of these internal controls, the statutory auditor also failed to obtain sufficient understanding of the design and adequately establish the reliability of the information which he used in his tests of these internal controls.
- execute the substantive analytical procedure in sufficient depth, by evaluating in advance whether the expectations were sufficiently accurate, determining the amount of any difference that would be acceptable without further investigation and adequately analysing the differences;
- carry out procedures to establish that the performance had actually been delivered and thereby establish the lawfulness of the procurement costs.

## Lawfulness of the tender procedures

The statutory auditor assessed risks of material misstatement in connection with the lawfulness of the tender procedures (according to European directives). The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether an internal control had operated effectively and a test of procurement orders in order to establish that procurement orders had been put out to tender lawfully. The execution of the tests of controls and substantive audit procedures on relevant elements was inadequate. The statutory auditor failed to:

- establish that the internal control on which he relied in his audit had operated effectively. The statutory auditor did not adequately establish whether this internal control had been implemented by G correctly and consistently;
- carry out procedures to establish whether the tenders had been lawfully conducted;
- carry out procedures to establish the reliability of the overviews of procurement transactions of G.

## Valuation of land development

The statutory auditor assessed risks of material misstatement in connection with the valuation of the land developments and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of an analysis of differences between the budgeted and actual figures for land developments, the execution of tests of details on expected and actual income and expenses and the use of the procedures of a valuation expert for assessing the plausibility of certain assumptions in the calculation of the valuation of the selected land developments. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- evaluate whether the procedures of the valuation expert were adequate for the purposes of his audit;
- sufficiently assess the reasonableness of the assumptions regarding the valuation of the land developments;
- carry out procedures on a significant portion of the land developments. After carrying out tests of details and substantive analytical procedures on the basis of a limited portion of the land developments, the statutory auditor drew conclusions with respect to the entire population. The results of his procedures could however not be projected for the entire population because he did not take a sample;
- carry out procedures with respect to the accuracy and completeness of the estimated income and expenses for the selected land developments;
- carry out procedures to establish the reliability of the reports and calculations by G which he used in his procedures to obtain substantiation for the land developments;
- carry out a retrospective assessment of the estimated income and expenses in the previous financial year.

## Audit client H

Audit client H is a construction company.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the accuracy and the completeness of the project revenues and the project expenses and the valuation of the construction contracts.

## Accuracy and completeness of project revenues and project expenses and valuation of construction contracts

The statutory auditor assessed risks of material misstatement in connection with the accuracy and completeness of the expected project revenues and project expenses and the valuation of construction contracts. He qualified these risks as significant with regard to the valuation. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of establishing the mathematical accuracy of cost-monitoring overviews and project overviews, tests of details on the project revenues and requesting information from H. The

statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out sufficient procedures on the estimated project expenses and the estimated project revenues, including the revenues for additional work. For the projects selected for his tests of details, the statutory auditor only obtained information regarding the project reporting and did not verify the explanations received from H. The statutory auditor also failed to establish the reliability of the information used in his procedures. In addition, the statutory auditor did not carry out a retrospective assessment of the project expenses and the project revenues estimated in the previous financial year;
- carry out adequate procedures on the estimated degree of progress of the construction projects on the balance sheet date, the accuracy and completeness of the loss provision, and the fulfilment of the reporting requirements for revenue recognition based on the percentage of completion.

## 4. KPMG Accountants N.V. KPMG

### 4.1 Background information

The table below shows certain features and key figures for KPMG.<sup>8</sup>

1	Number of persons in charge of day-to-day policy	5
2	Number of supervisory directors	5 independent members
3	Number of statutory audits	269 of PIE audit clients and 1,886 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>9</sup>	239
5	Number of IQRs	59
6	Total fees charged to audit clients	€145 million
7	Total revenue KPMG Accountants N.V.	€251 million
8	Total revenue KPMG N.V.	€453 million

The response from KPMG is available on the AFM website.<sup>10</sup>

### 4.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Short with expectation	Nearly in line with expectation	Short with expectation	Nearly in line with expectation	In line with expectation	Nearly in line with expectation	Nearly in line with expectation	Short with expectation	In line with expectation	Nearly in line with expectation

<sup>8</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2015-2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which KPMG has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 30 September 2016. The information in line 8 is derived from the 2015/2016 financial statements of KPMG N.V.

<sup>9</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>10</sup> See the [response from KPMG](#).

### 4.3 Findings per statutory audit

Based on the findings as described below, the AFM concluded that the statutory auditor concerned failed to obtain sufficient substantiation for his opinion with respect to the financial statements in six of the eight inspected statutory audits. These statutory auditors did not carry out sufficient procedures to obtain sufficient appropriate audit evidence on significant and material items and subjects in the financial statements concerned prior to issuing their audit opinion. The quality safeguards of KPMG on the statutory audits performed by the statutory auditors in question did not prevent or detect the AFM's findings in a timely fashion.

In its inspection, the AFM inspected elements of the following statutory audits.

Audit client	AFM conclusion	Market segment	Financial year	EQCR	Internal quality review	First-year or last-year audit
A	'inadequate'	PIE	2015	Yes	Yes	First-year
B	'inadequate'	PIE	2015	Yes	No	Last-year
C	'adequate'	PIE	2015	Yes	Yes	Last-year
D	'adequate'	Large non-PIE	2014	Yes	No	n.a.
E	'inadequate'	Large non-PIE	2014	Yes	No	First-year
F	'inadequate'	Large non-PIE	2014	Yes	Yes	n.a.
G	'inadequate'	Large non-PIE	2015	Yes	No	Last-year
H	'inadequate'	Other non-PIE	2014	Yes	No	n.a.

#### Audit client A

Audit client A is an industrial company.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the accuracy of the revenue and the valuation and the allocation of receivables on trade receivables of significant components and with respect to the valuation of goodwill.

#### Accuracy of the revenue

The statutory auditor assessed risks of material misstatement in relation to the accuracy of the revenue. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, data analysis of prices of sales recorded manually and reviewing the conflicts with respect to segregation of duties in the automated system reported by A. The execution of the tests of controls and substantive audit procedures on relevant elements was inadequate. The statutory auditor failed to:

- carry out sufficient procedures to establish whether the sales had been reported at the correct prices, for both prices of sales entered automatically (based on price conditions in the master data) and prices of sales entered manually;

- establish the reliability of the master data, including the price conditions in the master data, in the automated system;
- establish that the internal controls on which he relied in his audit had operated effectively. For one internal control, he did not establish whether it had been applied. For another internal control, he incorrectly concluded that it had operated effectively, since his procedures revealed that prices of sales that had been entered automatically had subsequently been changed manually, while the internal control should have safeguarded that manual adjustment was not possible. In addition, the statutory auditor did not establish that the internal controls that are dependent on the controls on which he relied had operated effectively;
- carry out procedures to establish whether the prices of sales entered manually were correct. The statutory auditor actually concluded that the effect of manually entered or adjusted prices on the recognised revenue was not material and accordingly did not carry out any other procedures, although the procedures he carried out did not justify this conclusion;
- carry out procedures to follow up the conflicts with respect to segregation of duties reported by A, including those relating to the prices of sales. The statutory auditor also did not establish whether the conflicts with respect to segregation of duties reported by A were complete and correct.

#### Valuation and allocation of the receivables from trade debtors

The statutory auditor assessed risks of material misstatement in relation to the valuation and allocation of the receivables from trade debtors. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively and the execution of tests of details on the valuation and allocation of the receivables from trade debtors. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements to establish whether the outstanding receivables from trade debtors were recognised for the correct amounts. The statutory auditor failed to:

- carry out sufficient procedures to establish whether the outstanding receivables from trade debtors were recognised for the correct amounts;
- establish that the internal controls stated under revenue on which he relied in his testing of the trade receivables had operated effectively;
- carry out procedures on all selected items (or elements) in his sample in order to test the valuation and allocation, meaning that the results of his procedures could not be projected for the entire population.

## Valuation of goodwill

The statutory auditor assessed risks of material misstatement in connection with the valuation of the goodwill and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of an assessment of the impairment test of goodwill carried out by A and the use of a valuation expert. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out adequate procedures to establish whether the goodwill was subject to impairment;
- carry out procedures to assess whether the goodwill should have been allocated to a lower level of cash-generating units;
- carry out adequate procedures to establish whether the cash flow forecasts used by A were based on reasonable and well-founded assumptions. The statutory auditor for instance failed to adequately establish whether the information used from the financial budgets and financial forecasts on which A had based its cash flow forecasts for the first 10 years reflected reasonable and well-founded assumptions and did not establish whether these cash flow forecasts were based on the financial budgets and financial forecasts approved by the management;
- carry out adequate procedures to establish the assumptions used by A for the changing growth rate on which the cash flow forecasts for the last five years were based. Without substantiation the statutory auditor also used a higher growth rate in his procedures than A. If he had used the growth rate used by A, this would have led to an impairment.

## Audit client B

Audit client B is a trading and service providing company.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the occurrence, the accuracy, the completeness and the cut-off of revenue and with respect to the valuation of the receivables.

## Occurrence, accuracy and completeness and cut-off of the revenue from products and services

The statutory auditor assessed risks of material misstatement in relation to the occurrence, the accuracy, the completeness and the cut-off of revenue. He qualified these risks as significant with regard to the occurrence and the accuracy. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of testing the cut-off of revenue, assessing credit notes, assessing discounts granted and assessing the entries on sales accounts. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out procedures on the revenue during the year, on both sale transactions and sale prices. The procedures of the statutory auditor on the revenue were limited to the period around year-end;
- carry out sufficient procedures on the revenue around year-end, because the statutory auditor failed to establish the reliability of the overviews and documents he received in his audit (for instance, overviews of credit notes and discounts granted) and also failed to establish whether the description on the sales invoice corresponded to the service actually provided and the agreed conditions of delivery.

### Valuation of receivables

The statutory auditor assessed risks of material misstatement in relation to the valuation of the receivables. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of assessing the insured value of the outstanding receivables, discussing disputes and claims with the company's legal counsel, requesting a lawyer's letter and carrying out a subsequent receipts testing and a verification of origin on the outstanding receivables. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out procedures to establish the reliability of the overviews received of insured value of B.
- carry out procedures on receivables not yet received and for which no dispute or claim was known.

### Audit client E

Audit client E is an industrial company.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the completeness of the revenue and the valuation of the receivables of significant components.

### Completeness of revenue

The statutory auditor assessed risks of material misstatement in connection with the completeness of revenue and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, the execution of a cross check (movement of cash and goods) and substantive analytical procedures on revenue and margins. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the automated internal controls on which he relied in his audit had operated effectively. The statutory auditor failed to establish whether these internal controls had been implemented correctly and consistently by E. The statutory auditor actually only took note of the screen print-outs and other statements provided by E without establishing the relevance and reliability thereof and without establishing whether this showed that the internal controls had been implemented by E;
- establish that the manual internal controls on which he relied in his audit had operated effectively. The statutory auditor failed to establish whether these internal controls had been implemented correctly and consistently by E. For one internal control, he moreover did not evaluate whether this was sufficiently accurate to prevent or detect and correct a material misstatement. The statutory auditor carried out one test on the other (weekly) internal control and also did not establish that this internal control had operated throughout the entire financial year;
- carry out sufficient procedures on the correctness and completeness of the 'production' component in the cross check (movement of cash and goods) for several significant components. For one of the significant components, he failed to carry out a cross check (movement of cash and goods);
- execute the substantive analytical procedure in sufficient depth, by formulating expectations in advance, determining the amount of any difference that would be acceptable without further investigation and verifying explanations by E for irregularities found;
- carry out other substantive audit procedures on the completeness of the revenue.

### Valuation of receivables

The statutory auditor assessed risks of material misstatement in relation to the valuation of the receivables. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted of a subsequent receipts test and an ageing analysis. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish the reliability of the list of debtors that he used for his ageing analysis in view of the portion (approximately 50%) of the still outstanding debtors;
- substantiate that he did not need to carry out procedures for the amounts outstanding for one month, since he expected 90% of these amounts to be received within one month.

### Audit client F

Audit client F is a services provider.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the completeness of revenue.

## Completeness of revenue

The statutory auditor assessed risks of material misstatement in relation to the completeness of the revenue. The statutory auditor planned to carry out substantive audit procedures. His procedures consisted mainly of obtaining an understanding of the design of the general IT controls, assessing the design and existence of the internal controls, and carrying out cross checks and a substantive analytical procedure on revenue. The statutory auditor did not test that the general IT controls and also other internal controls had operated effectively. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish the reliability of the reports by F that he used in his cross checks;
- execute the substantive analytical procedure in sufficient depth, by formulating expectations in advance, by evaluating whether the expectation was sufficiently accurate and determining the amount of any difference that would be acceptable without further investigation;
- carry out other substantive audit procedures on the completeness of the revenue.

## Audit client G

Audit client G is a wholesale business.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the occurrence, the accuracy and the completeness of revenue and with respect to the existence of inventory.

## Occurrence, accuracy and completeness of revenue

The statutory auditor assessed risks of material misstatement in relation to the occurrence, the accuracy and the completeness of the revenue. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of establishing whether an internal control had operated effectively, reconciling the financial administration with the batch administration, carrying out a substantive analytical procedure on margins and executing tests of details on the cut-off of revenue. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal control on which he relied in his audit had operated effectively. The statutory auditor failed to adequately establish whether this internal control had been implemented by G correctly and consistently. The statutory auditor actually failed to establish whether the batch administration had been evaluated and the checks and changes had been authorised, even though these are elements of the internal control. The statutory auditor also failed to follow up adequately on potential misstatements identified during the execution of the procedures;

- carry out other procedures to establish the reliability of the batch administration, even though he relied on this in his audit;
- execute the substantive analytical procedure on margins in sufficient depth, by establishing the reliability of the data on which his expectation was based in advance and verifying the explanations provided for misstatements;
- carry out other substantive audit procedures on the revenue during the year, because the statutory auditor's procedures were limited to the period around year-end.

### Existence of inventory

The statutory auditor assessed risks of material misstatement in relation to the existence of inventory. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, reconciling G's check list on its own inventory at year-end with the inventory status in the system and procedures in relation to inventory at an external party. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor failed to establish whether these internal controls had been implemented correctly and consistently by G. For one internal control relating to the inventory checks, the statutory auditor did not for instance establish whether all inventory had been counted, whether the marketability of the inventory had been tested, whether the inventory had been counted correctly and the inventory checks had been recorded, although these were elements of the internal control. For another internal control, the statutory auditor for instance did not establish whether the overviews of the inventory designated as obsolete had been authorised by the person authorised to do so;
- carry out procedures on the changes to the inventory present at G between the date of attending the inventory check (in mid-December) and year-end;
- carry out procedures to establish the reliability of the confirmation and the attached inventory list received by the statutory auditor from the external party via G. The statutory auditor actually only took note of the documents relating to the inventory at the external party received via G and (for instance) did not himself request the external confirmation, did not receive the confirmation directly from the external party and did not establish what G had requested to be provided and whether this was appropriate for the purposes of the statutory auditor's audit.

## Audit client H

Audit client H is a construction company.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the accuracy and completeness of project revenues and project expenses and the valuation of construction contracts.

### Accuracy and completeness of project revenues and project expenses and valuation of construction contracts

The statutory auditor assessed risks of material misstatement in connection with the accuracy and completeness of the project revenues and project expenses and the valuation of construction contracts and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, assessing the reliability of the overview of the construction projects, obtaining information with respect to ongoing and completed projects and carrying out tests of details for the project expenses and the project revenues. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. For several internal controls, the statutory auditor failed to establish whether these internal controls had been implemented by H. For the other internal controls, the statutory auditor failed to adequately establish whether these had been implemented correctly and consistently by H. For one internal control, he did not establish whether the project expenses had been authorised by a person authorised to do so and did not establish whether this person had established that the expenses had been allocated to the right project. For this internal control, he also did not establish that it had been implemented throughout the financial year;
- establish that the segregation of the duties on which he relied in his audit for the project monitoring had operated effectively;
- carry out procedures on the accuracy of a significant part of the project revenues and project expenses. After carrying out tests of details on the basis of a limited portion of the project revenues and project expenses, the statutory auditor drew conclusions with respect to the entire population. The results of his procedures could however not be projected for the entire population because he did not take a sample. The statutory auditor also failed to carry out procedures with respect to the completeness and the correct allocation of the recognised project expenses;
- carry out procedures with respect to the completeness of the projects designated as completed;

- carry out sufficient procedures on the expected project revenues, including the revenues for additional work and the expected project expenses, for instance by verifying the statements received from H with source documentation or executing a retrospective assessment;
- carry out adequate procedures on the estimated degree of progress of the construction projects on the balance sheet date, the accuracy and completeness of the loss provision, and the fulfilment of the reporting requirements for revenue recognition based on the percentage of completion.

## 5. PricewaterhouseCoopers Accountants N.V. PwC

### 5.1 Background information

The table below shows certain features and key figures for PwC.<sup>11</sup>

1	Number of persons in charge of day-to-day policy	9
2	Number of supervisory directors	7 independent members
3	Number of statutory audits	185 of PIE audit clients and 2,415 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>12</sup>	107
5	Number of IQRs	33
6	Total fees charged to audit clients	€201 million
7	Total revenue PricewaterhouseCoopers Accountants N.V.	€303 million
8	Total revenue Holding PricewaterhouseCoopers Nederland B.V.	€744 million

The response from PwC is available on the AFM website.<sup>13</sup>

### 5.2 Findings per pillar

Control			Behaviour and culture						Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision	
Well short with expectation	Short with expectation	Short with expectation	Nearly in line with expectation	In line with expectation	In line with expectation	In line with expectation	In line with expectation	In line with expectation	Nearly in line with expectation	

<sup>11</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2015-2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which PwC has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 30 June 2016. The information in line 8 is derived from the 2015/2016 financial statements of Holding PricewaterhouseCoopers Nederland B.V.

<sup>12</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>13</sup> See the [response from PwC](#).

### 5.3 Findings per statutory audit

Based on the findings as described below, the AFM concluded that the statutory auditor concerned failed to obtain sufficient substantiation for his opinion with respect to the financial statements in four of the eight inspected statutory audits. These statutory auditors did not carry out sufficient procedures to obtain sufficient appropriate audit evidence on significant and material items and subjects in the financial statements concerned prior to issuing their audit opinion. The quality safeguards of PwC on the statutory audits performed by the statutory auditors in question did not prevent or detect the AFM's findings in a timely fashion.

In its inspection, the AFM inspected elements of the following statutory audits.

Audit client	AFM conclusion	Market segment	Financial year	EQCR	Internal quality review	First-year or last-year audit
A	'adequate'	PIE	2014	Yes	Yes	First-year
B	'inadequate'	PIE	2015	Yes	No	Last-year
C	'adequate'	PIE	2015	Yes	No	n.a.
D	'inadequate'	Large non-PIE	2014	Yes	No	n.a.
E	'inadequate'	(Semi-)public institution	2014	Yes	No	n.a.
F	'inadequate'	Other non-PIE	2014	No	No	n.a.
G	'adequate'	Other non-PIE	2015	No	No	n.a.
H	'adequate'	Other non-PIE	2015	No	No	n.a.

#### Audit client B

Audit client B is company with projects.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the accuracy and the completeness of project revenues and project expenses and with respect to the valuation and allocation of construction contracts of a significant component.

#### Accuracy and completeness of project revenues and project expenses and valuation and allocation of construction contracts

The statutory auditor assessed risks of material misstatement in connection with the accuracy and completeness of the project revenues and project expenses and the valuation of construction contracts and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, conducting project interviews with management and executing tests of details on projects. The execution of the tests

of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor failed to adequately establish whether these internal controls had been implemented correctly and consistently by B. The statutory auditor moreover failed to obtain sufficient understanding of the design of these internal controls and did not evaluate whether these internal controls were sufficiently accurate to prevent or detect and correct a material misstatement. For a number of these internal controls, he failed to establish the reliability of the information which he used in his tests of these internal controls;
- adequately establish that the recognised costs of materials and sub-contracting corresponded with the performance delivered and the price agreed with the supplier and had been allocated to the correct construction contracts;
- adequately establish that the hours of the company's personnel were complete and allocated to the right construction contracts and recognised at the correct rates. For instance, the statutory auditor used an incorrect population in the determination of his sample. In addition, the statutory auditor for instance did not carry out any procedures to establish that the correct hourly rates had been linked to the employees in the systems. Furthermore, the statutory auditor did not adequately assess whether the information received that he used in his audit of the hours was sufficiently reliable;
- adequately establish that the proceeds of construction contracts (including contract variations) corresponded with the contracts. The statutory auditor for instance did not adequately establish whether contract prices corresponded to signed contracts;
- carry out adequate procedures on the expected project expenses because the statutory auditor had not verified the information obtained;
- carry out sufficient procedures on the degree of progress, because the statutory auditor had not carried out sufficient procedures to establish whether the percentage of completion used had been calculated correctly, whether this percentage was representative of the extent of the performance at the balance sheet date and whether this percentage had been applied correctly and consistently in the calculation of the proceeds to be recognised;
- carry out sufficient procedures on the project results, because the statutory auditor had not obtained sufficient appropriate audit evidence with respect to the recognised and expected project revenues and project expenses and the percentage of completion.

#### Audit client D

Audit client D is a service provider which receives a fee for its services to contract parties consisting of a percentage of the revenue generated by these contract parties.

The statutory auditor failed to obtain sufficient appropriate audit evidence over the occurrence, the accuracy and the completeness of revenue.

## Occurrence, accuracy and completeness of revenue

The statutory auditor assessed risks of material misstatement in relation to the occurrence, the accuracy and the completeness of revenue. He qualified these risks as significant with regard to the occurrence. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. However, the statutory auditor concluded that he could not rely on the operating effectiveness of the internal controls and accordingly carried out substantive audit procedures only. These procedures consisted mainly of making various reconciliations, obtaining confirmations from the contract parties, inspecting and confirming the completeness of contracts, reviewing claims and testing subsequent receipts from debtors. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures on relevant elements was inadequate. The statutory auditor failed to:

- carry out procedures on the occurrence, the accuracy and the completeness of the services provided by D;
- carry out procedures on the occurrence, the accuracy and the completeness of the revenue reported by the contract parties.

## Audit client E

Audit client E is a municipality.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the occurrence, the accuracy and the lawfulness of the procurement costs and the lawfulness of the tenders.

## Occurrence, accuracy and lawfulness of procurement costs

The statutory auditor assessed risks of material misstatement in relation to the occurrence, the accuracy and the lawfulness of the procurement costs. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively and the execution of tests of details on the procurement costs. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. For one internal control, the statutory auditor failed to establish that it had been implemented. For this internal control, the statutory auditor also failed to obtain sufficient understanding of its design and did not evaluate whether this internal control was sufficiently accurate in order to prevent or detect and correct a material misstatement. For another internal control, he failed to establish the reliability of the information which he used in his tests of this internal control. For both internal controls, he did not establish whether they had been implemented throughout the financial year;
- carry out substantive audit procedures on the procurement costs.

## Lawfulness of the tender procedures

The statutory auditor assessed risks of material misstatement in connection with the lawfulness of the tender procedures (according to European directives) and qualified these risks as significant. The statutory auditor planned to carry out substantive audit procedures. These procedures consisted mainly of using the work of the internal audit function of E. The statutory auditor did not rely on the general IT controls. The execution of the substantive audit procedures was inadequate on relevant elements. The statutory auditor failed to:

- carry out procedures to establish that the work of the internal audit department of E which he used was adequate for the purposes of his audit;
- establish the reliability of the Excel files of the internal audit function that he used in his audit of the lawfulness of the tenders;
- carry out more procedures himself on the lawfulness of the tenders. This was necessary because he had identified a significant risk, and the audit of the lawfulness of tenders is more a matter of forming an opinion. He did not avoid making excessive use of the procedures of the internal audit function.

## Audit client F

Audit client F is a company trading in fresh and frozen fish.

The statutory auditor failed to obtain sufficient appropriate audit evidence with respect to the occurrence, the accuracy and the completeness of the revenue from the sales of fish and with respect to the valuation and allocation and existence of receivables from trade debtors.

## Occurrence, accuracy and completeness of the revenue

The statutory auditor assessed risks of material misstatement in connection with the occurrence, the accuracy and the completeness of revenue and qualified these risks as significant. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively, a substantive analytical procedure on revenue and margins and data analysis of the segregation of duties considered necessary by the statutory auditor and the so-called '3-way match'. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures on relevant elements was inadequate. The statutory auditor failed to:

- establish that the internal controls on which he relied in his audit had operated effectively. The statutory auditor failed to adequately establish whether these internal controls had been implemented correctly and consistently by F. The statutory auditor moreover failed to obtain sufficient understanding of the design of these internal controls and did not evaluate whether these internal controls were sufficiently precise to prevent or detect and correct a material misstatement. In addition, he failed to establish the reliability of the information which he used in his tests of these internal controls.

- establish that the '3-way match' in the automated system on which he relied in his audit had operated effectively;
- establish that the segregation of duties on which he relied in his audit had operated effectively;
- follow up sufficiently on conflicts with respect to segregation of duties that he identified and differences in the '3-way match', direct entries in the ledger and missing administrative records. The statutory auditor did not carry out any procedures to verify the explanations for these differences provided by F;
- execute the substantive analytical procedure in sufficient depth, by evaluating whether the expectations were sufficiently accurate and determining the amount of any difference that would be acceptable without further investigation. He also did not carry out any procedures to verify the explanations for negative margins provided by F.

### Valuation and allocation and existence of the receivables from trade debtors

The statutory auditor assessed risks of material misstatement in relation to the valuation and allocation and the existence of the receivables from trade debtors. The statutory auditor planned to carry out a combination of tests of controls and substantive audit procedures. These procedures consisted mainly of testing whether the internal controls had operated effectively and the execution of tests of details on the subsequent receipts of the receivables. The statutory auditor did not rely on the general IT controls. The execution of the tests of controls and substantive audit procedures on relevant elements was inadequate. The statutory auditor failed to:

- establish that the internal controls referred to under revenue on which he also relied in his audit of the trade receivables had operated effectively;
- carry out procedures on the subsequent receipts of a significant portion of the receivables. After carrying out tests of details on the basis of a limited portion of the receivables, the statutory auditor drew conclusions with respect to the entire population. The results of his procedures could however not be projected for the entire population because he did not take a sample. He also did not establish the reliability of the overview of written-off receivables that he used for his procedures.

## 6. Accon avm controlepraktijk B.V. (Accon)

### 6.1 Background information

The table below shows certain features and key figures for Accon.<sup>14</sup>

1	Number of persons in charge of day-to-day policy	2
2	Number of supervisory directors	3, of which 2 are independent
3	Number of statutory audits	0 of PIE audit clients and 223 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>15</sup>	23
5	Number of IQRs	6
6	Total fees charged to audit clients	€3 million
7	Total revenue Accon avm controlepraktijk B.V.	€5 million
8	Total revenue Stichting Accon AVM	€101 million

The response from Accon is available on the AFM website.<sup>16</sup>

### 6.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Well short with expectation	Well short with expectation	Nearly in line with expectation	Well short with expectation	Short with expectation	Short with expectation	Well short with expectation	Well short with expectation	In line with expectation	Well short with expectation

<sup>14</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which Accon has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 31 December 2015. The information in line 8 is derived from the 2015 financial statements of Stichting Accon AVM.

<sup>15</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>16</sup> See the [response from Accon](#).

## 7. BDO Audit & Assurance B.V. (BDO)

### 7.1 Background information

The table below shows certain features and key figures for BDO.<sup>17</sup>

1	Number of persons in charge of day-to-day policy	5
2	Number of supervisory directors	5 independent members
3	Number of statutory audits	49 of PIE audit clients and 1,592 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>18</sup>	25
5	Number of IQRs	11
6	Total fees charged to audit clients	€47 million
7	Total revenue BDO Audit & Assurance B.V.	€75 million
8	Total revenue BDO Holding B.V.	€232 million

The response from BDO is available on the AFM website.<sup>19</sup>

### 7.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Well short with expectation	Well short with expectation	Nearly in line with expectation	Well short with expectation	Well short with expectation	Nearly in line with expectation	Well short with expectation	Well short with expectation	In line with expectation	Nearly in line with expectation

<sup>17</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which BDO has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 31 December 2015. The information in line 8 is derived from the 2015 financial statements of BDO Holding B.V.

<sup>18</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>19</sup> See the [response from BDO](#).

## 8. Baker Tilly Berk N.V. (BTB)

### 8.1 Background information

The table below shows certain features and key figures for BTB.<sup>20</sup>

1	Number of persons in charge of day-to-day policy	3
2	Number of supervisory directors	4, of which 2 are independent
3	Number of statutory audits	6 of PIE audit clients and 515 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>21</sup>	179
5	Number of IQRs	23
6	Total fees charged to audit clients	€15 million
7	Total revenue Baker Tilly Berk N.V.	€85 million
8	Total revenue Baker Tilly Berk N.V. <sup>22</sup>	€85 million

The response from BTB is available on the AFM website.<sup>23</sup>

### 8.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Well short with expectation	Well short with expectation	Nearly in line with expectation	Well short with expectation	Well short with expectation	Short with expectation	Well short with expectation	Well short with expectation	Nearly in line with expectation	Well short with expectation

<sup>20</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which BTB has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 31 December 2015. The information in line 8 is derived from the 2015 financial statements of Baker Tilly Berk N.V.

<sup>21</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>22</sup> Baker Tilly Berk N.V. is the highest network entity in the Netherlands, which is why there is no difference between revenue in line 7 and in line 8.

<sup>23</sup> See the [response from BTB](#).

## 9. Mazars Paardekooper Hoffman Accountants N.V. (Mazars)

### 9.1 Background information

The table below shows certain features and key figures for Mazars.<sup>24</sup>

1	Number of persons in charge of day-to-day policy	3
2	Number of supervisory directors	3, of which 2 are independent
3	Number of statutory audits	56 of PIE audit clients and 496 at non-PIE audit clients
4	Number of EQCRs at non-PIEs <sup>25</sup>	118
5	Number of IQRs	25
6	Total fees charged to audit clients	€16 million
7	Total revenue Mazars Paardekooper Hoffman Accountants N.V.	€20 million
8	Total revenue Mazars Paardekooper Hoffman Holding N.V.	€82 million

The response from Mazars is available on the AFM website.<sup>26</sup>

### 9.2 Findings per pillar

Control			Behaviour and culture					Internal supervision	
In control cycle on quality	Root cause analyses	Culture survey	Target on the horizon	Quality-oriented culture	Tone at the top	HR employees	HR partners	Establishment internal supervision	Functioning of internal supervision
Well short with expectation	Short with expectation	Short with expectation	Well short with expectation	Short with expectation	Short with expectation	Nearly in line with expectation	Short with expectation	In line with expectation	Nearly in line with expectation

<sup>24</sup> The information in lines 1, 2 and 5 is derived from the transparency report 2015-2016. The information in lines 3, 4, 6 and 7 is derived from the AFM Audit Firms Monitor 2016, in which Mazars has provided information to the AFM on its most recently concluded financial year, in this case the financial year closing on 31 August 2016. The information in line 8 is derived from the 2015/2016 financial statements of Mazars Paardekooper Hoffman Holding N.V.

<sup>25</sup> The information in line 4 does not relate to statutory audits of PIEs, since an engagement quality control review is mandatory for statutory audits of PIEs (Section 18 Bta).

<sup>26</sup> See the [response from Mazars](#).

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