



Appendices

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

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Appendix 1 Expectations and qualifications for implementation and embedding of the change process

This appendix lists the expectations used by the AFM in its assessment in 2016 and the qualifications for the various elements of the three pillars.

Pillar control

In control cycle on quality	
In line with expectation	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none"> • The board of directors of the audit firm has the relevant information to be able to provide direction via the 'in control cycle on quality' of statutory audits. In any case, this means information on quality (including root cause analysis, internal quality reviews, engagement quality control reviews, incidents, findings of inspections by the supervisor), on HR and on the change (culture survey, NBA measures). • The information available to the board of directors with respect to the 'in control cycle on quality' in any case covers the process and the substance, is for the purpose of accountability and for taking (policy) decisions with regard to the quality of statutory audits. • The board of directors provides direction with respect to achieving formulated quality targets that are part of its quality-oriented vision and culture. • The board establishes whether the formulated targets (that are part of its quality-oriented vision and culture) are achieved (monitoring).
Nearly in line with expectation	The audit firm fails with respect to only one expectation.
Short with expectation	The audit firm fails with respect to two expectations.
Well short with expectation	The audit firm fails with respect to three or four expectations.

Root cause analyses	
In line with expectation	<p>The audit firm meets all the five expectations listed below:</p> <ul style="list-style-type: none"> • The audit firm carries out root cause analyses on the basis of various signals in accordance with its formulated policy. The audit firm does this for statutory audits of both adequate and inadequate quality. • The root cause analyses are carried out by a competent and independent person with sufficient standing and support within the organisation and are carried out with sufficient diligence and depth. • The root cause analyses focus on both the individual statutory auditor and his team and on aspects relating to the organisation as a whole. • The board of directors discusses the findings of the root cause analyses and on the basis of this discussion: <ul style="list-style-type: none"> ○ determines whether the information provided is of the quality expected by the board and whether the findings are logical (known as a 'sanity check'); ○ determines what follow-up action it will take regarding the findings of the root cause analyses in order to achieve the desired quality in the statutory audits in the public interest. • The board establishes how the decisions taken are implemented and what results are achieved. The board makes adjustments if necessary.
Nearly in line with expectation	The audit firm fails with respect to only one expectation.
Short with expectation	The audit firm fails with respect to two or three expectations.
Well short with expectation	The audit firm fails with respect to four or five expectations.

Culture survey	
In line with expectation	<p>The audit firm meets all the five expectations listed below:</p> <ul style="list-style-type: none"> • The audit firm has a culture survey carried out or repeatedly carried out by an (external) expert. • The questions in the survey are sufficiently focused on measuring the extent to which the culture is oriented towards quality. • The survey covers a representative sample of each layer in the organisation. • The board of directors discusses the culture survey and on the basis of this discussion: <ul style="list-style-type: none"> ○ determines how the culture survey should be given a recurring character in the organisation; ○ determines whether the information provided is of the quality expected by the board and whether the findings are logical (known as a 'sanity check'); ○ determines the follow-up action to be taken with respect to the findings of the culture survey in order to achieve the desired quality-oriented culture. • The board establishes how the decisions taken are implemented and what results are achieved, and makes adjustments if necessary.
Nearly in line with expectation	The audit firm fails with respect to only one expectation.
Short with expectation	The audit firm fails with respect to two or three expectations.
Well short with expectation	The audit firm fails with respect to four or five expectations.

Pillar behaviour and culture

Point on the horizon	
In line with expectation	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none"> • The audit firm has set a point on the horizon that entails more than compliance. • The employees (including the statutory auditors) know what this point on the horizon is (mission, vision, core values). • A majority of the employees (including the statutory auditors) know what the point on the horizon means for them. • A majority of the employees (including the statutory auditors) feel engaged with the point on the horizon.
Nearly in line with expectation	The audit firm fails with respect to only one expectation.
Short with expectation	The audit firm fails with respect to two expectations.
Well short with expectation	The audit firm fails with respect to three or four expectations.

Quality-oriented culture

In line with expectation	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none">• The audit firm encourages its employees to display desirable behaviour by various means and interventions in systems and processes.• The audit firm encourages its employees to display desirable behaviour by various means and interventions in the area of leadership and competences.• A majority of the employees (including the statutory auditors) can state what the audit firm is doing to encourage them to display desirable behaviour.• A majority of the employees feel the urgency of the need to change.
Nearly in line with expectation	<p>The audit firm fails with respect to only one expectation.</p>
Short with expectation	<p>The audit firm fails with respect to two expectations.</p>
Well short with expectation	<p>The audit firm fails with respect to three or four expectations.</p>

Tone at the top	
In line with expectation	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none"> • The board of directors has a tone at the top and sets an example that reflects the mission, vision, strategy and core values of the audit firm and which expresses the quality-oriented culture (as developed for the organisation). • The employees (including the statutory auditors) experience a tone at the top from the board of directors that reflects the mission, vision, strategy and core values of the audit firm. The employees experience that the example set by the board of directors reflects the tone at the top. • A majority of the statutory auditors have a tone at the top and set an example that reflects the mission, vision, strategy and core values of the audit firm and which expresses the quality-oriented culture (as developed for the organisation). • The employees (including the statutory auditors) experience a tone at the top from the statutory auditors that reflects the mission, vision, strategy and core values of the audit firm. The employees experience that the example set by the statutory auditors reflects the tone at the top.
Nearly in line with expectation	The audit firm fails with respect to only one expectation.
Short with expectation	The audit firm fails with respect to two expectations.
Well short with expectation	The audit firm fails with respect to three or four expectations.

Policy on evaluation, remuneration and promotion of employees

In line with expectation	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none">• The audit firm implements its policy on evaluation, in which quality is a decisive consideration. A majority of the employees experience that quality is a decisive consideration in their evaluation.• The audit firm implements its policy on remuneration, in which quality is a decisive consideration. A majority of the employees experience that quality is a decisive consideration in their remuneration.• The audit firm implements its policy on promotion, in which quality is a decisive consideration. A majority of the employees experience that quality is a decisive consideration in their promotion.• The audit firm facilitates the operational line managers in the application of its policy on remuneration, evaluation, promotion and sanctions in practice.
Nearly in line with expectation	<p>The audit firm fails with respect to only one expectation.</p>
Short with expectation	<p>The audit firm fails with respect to two expectations.</p>
Well short with expectation	<p>The audit firm fails with respect to three or four expectations.</p>

Policy on evaluation, remuneration, promotion and sanctions for partners

<p>In line with expectation</p>	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none"> • The audit firm implements its policy on evaluation, in which quality is a decisive consideration. A majority of the partners experience that quality is a decisive consideration in their evaluation. • The audit firm implements its policy on remuneration, in which quality is a decisive consideration. A majority of the partners experience that quality is a decisive consideration in their remuneration. • The audit firm implements its policy on promotion, in which quality is a decisive consideration. A majority of the partners experience that quality is a decisive consideration in their promotion. • The audit firm implements its policy on sanctions, which promotes a quality-oriented culture. A majority of the partners see that the policy on sanctions is applied with the aim of encouraging a quality-oriented culture. • The audit firm facilitates the operational line managers in the application of its policy on remuneration, evaluation, promotion and sanctions in practice.
<p>Nearly in line with expectation</p>	<p>The audit firm fails with respect to only one expectation.</p>
<p>Short with expectation</p>	<p>The audit firm fails with respect to two or three expectations.</p>
<p>Well short with expectation</p>	<p>The audit firm fails with respect to four or five expectations.</p>

Pillar internal supervision

Progress on formation of a supervisory board	
In line with expectation	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none"> • A supervisory board has been formed. • The supervisory board has completed an induction programme. • The supervisory board has met (on several occasions). • The supervisory board has set its own agenda for 2016-2017.
Nearly in line with expectation	The audit firm fails with respect to only one expectation.
Short with expectation	The audit firm fails with respect to two expectations.
Well short with expectation	The audit firm fails with respect to three or four expectations.

Functioning of the supervisory board

<p>In line with expectation</p>	<p>The audit firm meets all the four expectations listed below:</p> <ul style="list-style-type: none"> • The supervisory board regularly determines how it fulfils its role in the organisation and acts accordingly (role of the internal supervisory body). • If situations have arisen, the supervisory board has exercised its powers in practice (powers of the internal supervisory body). • The supervisory board has a vision of what quality means for the organisation, expresses this and calls the board of directors to account when necessary with respect to its tone and the example it sets (tone at the top). • The supervisory board keeps the board of directors continually aware of its duty of meeting the expectations of the public, with a focus on continually giving a central priority to the public interest of statutory audits being conducted with good quality. In this, the supervisory board takes account of the various stakeholders and social aspects of the audit firm and has at least held substantive discussions with the board of directors on quality (keeping the board continually aware).
<p>Nearly in line with expectation</p>	<p>The audit firm fails with respect to only one expectation.</p>
<p>Short with expectation</p>	<p>The audit firm fails with respect to two expectations.</p>
<p>Well short with expectation</p>	<p>The audit firm fails with respect to three or four expectations.</p>

Appendix 2 Medium to long-term objectives

In 2015, the AFM formulated the medium to long-term objectives for each module of the inspection of the design in 2015. These have been previously included in the public report of October 2015 and thereby shared with the sector.

Module 1: Executive Board

In the medium to long term, the AFM wants to be able to establish that:

- the audit firm has a professional board of directors that has a vision focused on quality;
- the audit firm has described how the organisation's targets stated in this vision will be achieved;
- the board of directors of the audit firm is 'in control on quality';
- the board of directors has a diverse composition, has sufficient knowledge and experience and the authority to be able to provide effective direction; and
- with an effective tone at the top, the board of directors sets an example that contributes to a quality-oriented culture and thereby operates in the public interest.

Module 2: Quality-oriented culture

In the medium to long term, the AFM wants to be able to establish that:

- the audit firm has a quality-oriented culture, meaning a culture that is focused on giving a continuous central priority to performing statutory audits with a high level of quality in the public interest, as is required due to the public duty of the audit firm, in comparison to other (commercial) interests; and
- the audit firm's quality-oriented culture is expressed in its mission, vision, strategy, core values and working practices and in the application thereof in practice.

Module 3: Quality control system

In the medium to long term, the AFM wants to be able to establish that the audit firm has a quality control system that:

- consists of procedures, descriptions and standards that enable statutory auditors to do their work as well as possible and thereby ensure the quality of statutory audits;
- is based on a thorough analysis of quality-contributing and quality-hampering factors;
- is effective in the use of identified quality-contributing factors and mitigating quality-hampering factors;
- concerns the acceptance and continuation of audit engagements, making the necessary time, resources (including standards and options for consultation) and personnel (in terms of knowledge, competences and experience) available, the conduct of engagement quality control reviews (EQCR) and monitoring that the required level of quality is maintained; and

- is complied with as such and leads to all relevant stakeholders (including the employees, the board of directors, the supervisory directors (supervisory board), service providers engaged and network elements) behave in such a way that high-quality performance of statutory audits continues to be given central priority in the public interest. The audit firm oversees this compliance and behaviour and regularly evaluates the effectiveness of its system, taking account of the previously-conducted analysis of the quality-contributing and the quality-hampering factors.

Module 4: Internal supervision

In the medium to long term, the AFM wants to be able to establish that the audit firm has an internal supervisory organ at principal holding company level that:

- has sufficient powers, knowledge and competences to keep the board of directors continually aware of its duty of meeting the expectations of the public, with a focus on continually giving a central priority to the public interest of statutory audits being conducted with good quality;
- takes account of the various stakeholders and social aspects of the audit firm;
- with an effective tone at the top, sets an example that contributes to a quality-oriented culture; and
- a quality-oriented vision, sufficient authority, time, knowledge and experience and consists of members who are independent of the audit firm and its audit clients.

Module 5: Relationship of the audit firm to its environment

In the medium to long term, the AFM wants to be able to establish that:

- the audit firm and the statutory auditor are independent in their relationships with the client, the company to which the financial reporting relates and the user of the audit opinion, so that the statutory auditor's issued opinion is objective;
- the audit firm and the statutory auditor are transparent with respect to the audits they perform and have performed, so that users have insight into the quality of the financial statements and there can be competition between audit firms with respect to quality; and
- the statutory auditor is transparent regarding any unusual items he encounters in the performance of the statutory audit and which are relevant to the public.

Module 6: Network

In the medium to long term, the AFM wants to be able to establish that:

- the audit firm has insight into the quality-enhancing and quality-limiting factors for statutory audits that are the consequence of working within a national and an international network;

- the audit firm has insight into the factors affecting the independence of the audit firm that are the consequence of working within a national and an international network;
- the audit firm has taken sufficient measures to mitigate the quality-limiting factors and apply the quality-enhancing factors and thereby ensure the quality of its statutory audits; and
- the audit firm has taken sufficient measures to mitigate threats to its independence and thereby ensure the quality of its statutory audits.

Module 7: Change

In the medium to long term, the AFM wants to be able to establish that:

- the audit firm has established by means of a root cause analysis (and by other means) its desired direction of change (target situation);
- the audit firm has a well-developed vision for change that describes in a consistent and balanced manner what has to change, the nature of this change, who has to change, where the change needs to occur and when it needs to occur in order for there to be a reasonable expectation that the target situation will be realised; and
- at the right times, the audit firm monitors and evaluates whether it is acting in line with the envisaged change by checking that it is making progress towards realising the target situation.

Appendix 3 Abbreviations

Accon	Accon avm controlepraktijk B.V.
AFM	The Dutch Authority for the Financial Markets
BDO	BDO Audit & Assurance B.V.
Bta	The Dutch Audit Firms Supervision Decree (Besluit toezicht Accountantsorganisaties)
BTB	Baker Tilly Berk N.V.
Deloitte	Deloitte Accountants B.V.
EQCR	Engagement Quality Control Review (EQCR)
EY	Ernst & Young Accountants LLP
GT	Grant Thornton Accountants en Adviseurs B.V.
IFIAR	International Forum of Independent Audit Regulators
IQR	Internal quality review
KPMG	KPMG Accountants N.V.
Mazars	Mazars Paardekooper Hoffman Accountants N.V.
NBA	The Netherlands Institute of Chartered Accountants (Nederlandse Beroepsorganisatie van Accountants)
NV COS	Further regulations regarding audit and other standards (Nadere voorschriften controle- en overige standaarden)
PCAOB	Public Company Accounting Oversight Board
PIE	Public interest entity
PwC	PricewaterhouseCoopers Accountants N.V.
Supervisory board	Supervisory board
VGBA	Code of Conduct and Professional Practice for Accountants Regulation (Verordening gedrags- en beroepsregels accountants)
Wta	The Dutch Audit Firms Supervision Act (Wet toezicht accountantsorganisaties)

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