

Executive board



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Financial Markets
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Regards

final response to outcomes of investigations into the implementation and assurance of change processes at PIE audit firms and quality of statutory audits at the Big 4 audit firms

Dear members of the board,

You have asked us to comment on your report "Kwaliteit OOB-accountantsorganisaties onderzocht" (Quality of PIE audit firms investigated) (June 2017). This report incorporates the outcomes of your investigation into the implementation and assurance of change processes at PIE audit firms, including our organisation Baker Tilly Berk.

General view of the sector

We are disappointed to find out that you believe that the sector is implementing changes to improve the quality too slowly. After all, your report also indicates that major steps have already been taken, and that the sector is still working hard on the improvement measures that have not yet been (fully) implemented.

We do understand that you believe that a faster rate is desired, but would like to note that this is easier said than done. As professionals, we believe quality comes first. And we are not just talking about the quality of our audit work, but also about the quality of the implementation of the improvement measures.

In our view, being thorough is more important than being fast, although this does not mean that working quickly is not important at all.

Nevertheless, we understand that society expects us to make clear and rapid progress. Our view is that the sector continues to work hard on these improvements, and that any appreciation for these efforts will contribute to the motivation to realise these.

Status Baker Tilly Berk

The change process requires a period of analysis, preparation, elaboration, implementation and assurance. We have actually made clear progress in this process, but various points were not yet visible to you in the summer of 2016. We believe that such a far-reaching process must be implemented carefully to achieve the most impact and ensure continuity.

In March 2016, we drew up an overall vision document called "Systematisch sturen op het verbeteren van de kwaliteit van onze dienstverlening" (The target-driven, systematic approach to improving the quality of our services). Although various elements of this vision were already implemented within our organisation, they were not always visible or (formally) embedded within processes and procedures. This made it difficult to monitor them. Our vision document had the aim to bring these elements together and supplement them with the necessary (improvement) measures resulting from the "In het Publiek Belang" (In the Public Interest) report.

Once the vision document had been completed, we started with the implementation right away. You investigated our company in the period from May to October 2016. We therefore do not find it surprising that you found that the implementation and assurance of the change processes had not yet reached the desired level.

Due to the short time span between our vision document and your observations, we had not been able to:

- make all measures taken visible
- implement everything

We have made significant progress since then, especially when compared to the period of the investigation. Our Transparency Report 2016, which is available on our website, will show you what we are working on and where we stand.

We would like to point out the chapters "In het publiek belang" (In the public interest), "Beoordelen & Belonen" (Assessment & Reward) and "Kwaliteit" (Quality) in particular.

An important aspect that partly caused the delay is the governance model combined with the discussion regarding goodwill. Our own organisation is the only PIE office that still applies a more-or-less traditional "goodwill model". We participated in the working group of the Royal NBA, which released a report at the end of your investigation period. Subsequently we made a flying start with the phase-out of the existing goodwill model. The partner group gave its consent for the phasing out of the goodwill model within six months of the release of the Royal NBA report. As a result, we will meet the expectations no later than 1st January 2018. The goodwill model also impacts our governance model. Following the adjustments in our goodwill system, the governance model has also been modified. This means that we will be appointing an external (full-time) director and will have a Supervisory Board that only has external members. When modifying both aspects, combined with the requirements posed by the 53 measures and the legislative proposals, it is imperative to take into account the specific situation of our organisation. In our view, this requires the careful analysis of all aspects, such as relationships relating to corporate law, contractual relationships, integration into the organisational structure, etc. and the ways in which they interrelate with each other.

Despite the circumstances outlined above, we are aware that much remains to be done and that the pace must be increased. Not only to realise (and assure) the measures mentioned in "In het Publiek Belang", but also to give substance to new insights (such as the report by the Monitoring Commissie Accountancy from November 2016).

How will we proceed?

We have continued to work on our change process unabated and are making good progress when compared to the conclusion of your investigation about nine months ago. Given the results of your investigation and the initiatives undertaken by the sector, it is likely that actions will need to be adapted and supplemented. We will also make use of external expertise – such as behavioural experts – to support the change process.

We do realise that:

- we are not there yet, and that some aspects will require a long time to be resolved
- the change process is not a static process, and that it is subject to change in itself, and therefore needs continuous adjustment
- the change process requires more attention than previously estimated, which means we will increase our focus now a number of other issues have been resolved
- you expect a faster pace, so we will increase our focus on this where possible

We will incorporate the good practices and recommendations mentioned in your report in our change process, adapting them to our specific situation where necessary.

We are also actively participating in initiatives undertaken by the sector such as:

- Foundation for Auditing Research (FAR): investigation into what affects the audit quality
- Nederlandse Beroepsorganisatie van Accountants (Royal Netherlands Institute of Chartered Accountants), such as publication of the Veranderagenda (Change agenda), publication of Green Paper on Quality
- OPAK (consultative body of medium and large firms): sharing developments and knowledge at board level.

Active participation includes attending consultations, commenting on internal notes, documents, etc., internal discussion on how to follow up results, sharing findings and providing information. We will ensure that we visibly focus on these initiatives and, where appropriate, communicate to you and our stakeholders how we deal with these and how this affects our organisation.

We will also include information about projects in our change agenda on our website. Whenever this is possible, we will indicate the relationship with your report.

Moreover, we have agreed to discuss our actions, their planning and any dilemmas with you.

And finally

We are aware of our role in society and the fact that we must improve the quality of our work even further. We work on this process every day, involving the entire organisation and not just the accountants. The matter can be quite challenging, however, as it includes many dimensions/areas of tension, such as:

- thoroughness versus speed
- standards not always clear
- new developments/techniques
- changing expectations of the environment
- labour shortage

Even though we do not agree with your conclusions in all cases, in particular those regarding the functioning of the Supervisory Board, we do recognise a common thread and will include it and/or consider it in the further implementation of the change process. We do not consider it appropriate to discuss the individual findings in this letter because it does not affect the general conclusion(s).

We have every confidence that both ourselves and our associates will manage to implement the required improvement measures in a proper manner. We will pick up the pace wherever this is possible, but due care and attention will continue to prevail. We hope that society can take this into account for the sake of the ultimate goal. We are still fully behind the desired (and required) changes, which should improve the quality of our work and thus reinforce the accounting profession. Just as we have done over recent years, we will continue our efforts to work on their realisation with undiminished vigour.

We trust that we have provided you with sufficient information and, as mentioned above, will be happy to enter into a dialogue with you to adjust the change process where necessary.

Yours faithfully,

A.P.J. van der Heijden RA
Chairman of the Supervisory Board

M.J. de Graaf RA