

# Snapshot of the Sector 2022



Developments in the audit market

22 November 2022

# TABLE OF CONTENTS

<b>1</b>	<b>Introduction</b>	<b>3</b>
	Snapshot of the Sector 2022	3
	Trends and developments show a sector in a state of flux	3
	The supervision of audit firms is also subject to change	4
<b>2</b>	<b>Audit firms and their clients</b>	<b>5</b>
	Number of audit firms decreasing due to consolidation	5
	Number of statutory audits stable, shift in audit firms' market shares	6
	Mandatory audit firm rotation for PIE audit clients imminent	6
<b>3</b>	<b>Opportunities and challenges in the labour market</b>	<b>8</b>
	Increasing staff shortages at audit firms	8
	Inflow into accountancy stagnating, outflow still high	9
	Increasing demand for audits	10
	In response, firms tend to use temporary workers and outsourcing	10
<b>4</b>	<b>Use of available time, staff and resources</b>	<b>12</b>
	Greater increase in turnover from audits by PIE AFs than from audits by RLH AFs	12
	Average time spent by PIE AFs on regular audits is twice the time spent by RLH AFs	13
	Small difference in composition of audit teams at PIE AFs and RLH AFs	13
	Use of specialists commonplace at PIE AFs and limited at RLH AFs	13
	Time spent on training declines for each 'type' of audit team member	14
<b>5</b>	<b>Quality control system</b>	<b>15</b>
	Number of consultations decreasing at PIE AFs, increasing at RLH AFs	15
	Use of external compliance officers is stable	16
	Downward trend in the number of IQRs and EQCRs not continuing	16
	More frequent use of (new) quality change measures	17

# 1 Introduction

## Introduction and summary



## Snapshot of the Sector 2022

You are looking at the Snapshot of the Sector 2022 report (*Sector in beeld 2022*, “Snapshot 22”). The purpose of this publication is to provide the sector with feedback on insights gained from the regular data reports to the AFM, including the AFM Monitor, in aggregated and anonymised form. Where possible, the report also contains information obtained from publicly available sources.

Snapshot 22 describes a selection of significant trends and developments in the market of audit firms (AFs). In this context, Snapshot 22 focuses purely on AFs at sectoral level (meso level) and can therefore be regarded as supplementary to the regular Trend Monitor (annual AFM publication; macro level). The Snapshot is *not* an annual review and therefore does not pretend to be complete: some other key developments in 2022 are lacking, such as Private Equity parties entering the market for AFs, the efforts of the Coordinators for the Future of the Audit Sector (*Kwartiermakers*), the public debate on the separation of audit and consultancy or the investigations performed by the AFM.

Apart from the developments addressed in this Snapshot 22, we will give due consideration in the future to a number of other themes important to the audit sector and its supervision, including sustainability, fraud and going concern, the impact of technology and digitalisation, the market structure and potential negative incentives.

## Trends and developments show a sector in a state of flux

Snapshot 22 provides insight into the dynamics of the audit sector and presents a picture of a sector (constantly) subject to change:

- ❖ **The number of AFs is decreasing while the number of statutory audits remains more or less the same: the market is consolidating.** On balance, no capacity is lost on the supply side because AFs are amalgamating and/or external auditors join licensed partnerships.
- ❖ **There is a fundamental shift in market shares.** While audit firms holding PIE licences (hereafter: “PIE AFs”) still performed more than 60% of statutory audits in 2014, the reverse applies at the end of 2021. By now, regular licence holders (hereafter: “RLH AFs”) conduct over 55% of the statutory audits. The number of AFs performing fewer than 15 statutory audits has fallen as well.
- ❖ **The audit sector faces the crucial challenge of keeping the audit profession attractive.** A growing area of tension can be perceived between, on the one hand, an outflow due to demographic developments and a stagnating inflow of accountancy students and, on the other, an increasing

demand for external auditors due to the extension of the audit scope (in particular ESG) and growing attention for themes such as fraud, corruption and going concern.

- ❖ **The average number of hours spent on regular audits by PIE AFs is double the number spent by RLH AFs.** This is probably on account of the size, nature, and complexity of the audit, although this hypothesis cannot yet be tested. Further insights on this point can only be obtained once the AFM has developed a data position at statutory audit level in the coming years.
- ❖ **In addition, the number of annual training hours is falling throughout the sector, but especially at the RLH AFs.** This applies to each 'type' of audit team member, regardless of years of experience or job level.
- ❖ **The developments regarding the quality control system within AFs present a mixed picture.** While the PIE AFs hold fewer consultations, this number is increasing at the RLH AFs. Conversely, the use of specialists has become commonplace at audit firms with PIE licences, whereas regular licence holders make little use of specialists. A positive development is that the downward trend in numbers of Internal Quality Reviews (IQRs) and Engagement Quality Control Reviews (EQCRs) has turned around.

### The supervision of audit firms is also subject to change

The supervision of AFs underwent some changes as well in 2022:

- ❖ **The main themes in 2022 were getting to know the RLH AFs, developing a data position and identifying the greatest risks to sustainable safeguarding of quality of statutory audit.** In 2021, the AFM organised various online meetings in order to get to know the 260 audit firms holding regular licences. This summer, supervisors visited 60 RLH AFs physically, not only for a personal meeting but also in order to gain insight into their priorities and challenges. At the same time, an annual data request went live, which will help supervisors focus the scarce capacity on the greatest risks. Since 1 January 2022, the AFM conducts the supervision of RLH AFs itself, which means that the transition phase for developing the supervision of this part of the sector will continue up to and including 2024.
- ❖ **In addition, intensified supervision of PIE AFs is being prepared in 2022.** The supervision of the six AFs holding supplementary PIE licences will be gradually intensified from 2023 – the transition phase in this respect will continue up to and including 2025.
- ❖ **Finally, four themes will receive special consideration from 2023.** Sustainability, societal attention for fraud and going concern, technology and digitalisation, market structure and negative incentives will have the greatest impact on the sector in the coming years and thereby on the supervision by the AFM.

## 2 Audit firms and their clients

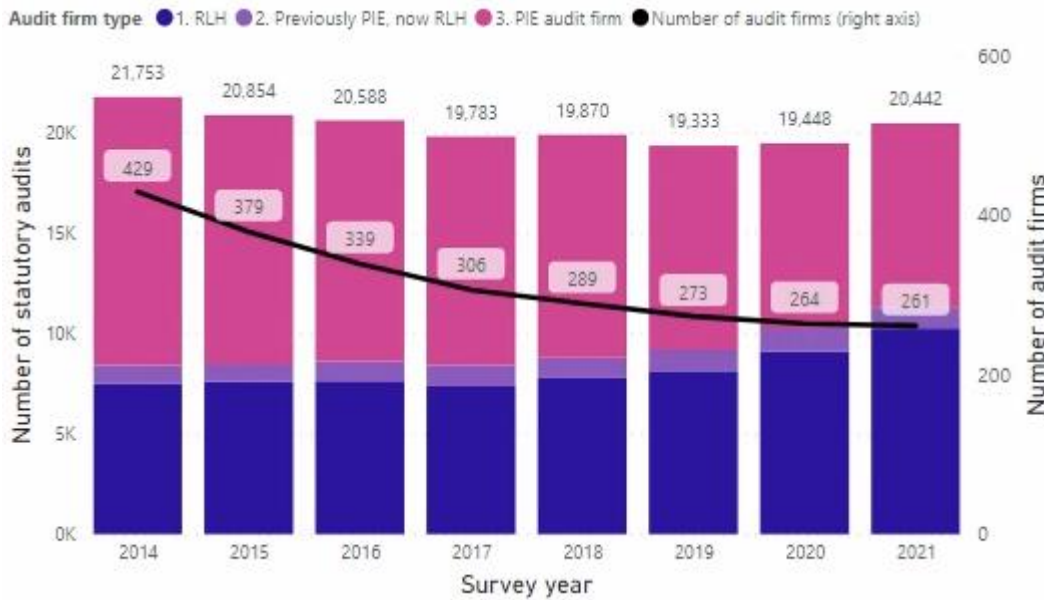
### Audit firms and their clients



### Number of audit firms decreasing due to consolidation

The number of AFs fell sharply between 2014-21, although this decline seems to have stabilised since 2019. Between 2014 and 2021, the number of AFs fell from 429 to 261. However, the decrease in the number of AFs seems to have stabilised since 2019 (figure 2.1), although the number of AFs holding regular licences declined further in the first half of 2022: in addition to three regular licences being surrendered on the audit firm’s initiative, the AFM received 16 withdrawal notifications as a result of mergers and acquisitions (12) and voluntary licence surrender (4). On the supply side, this means no loss of capacity just yet in terms of external auditor numbers, also because external auditors are joining partnerships. It cannot be ruled out that the number of regular licence holders will decrease further in 2023 on account of mergers and acquisitions or voluntary licence surrender.

Figure 2.1: Market share is shifting from PIE AFs to RLH AFs, sector is consolidating



Source: AFM Monitor, Register (2014-2021)

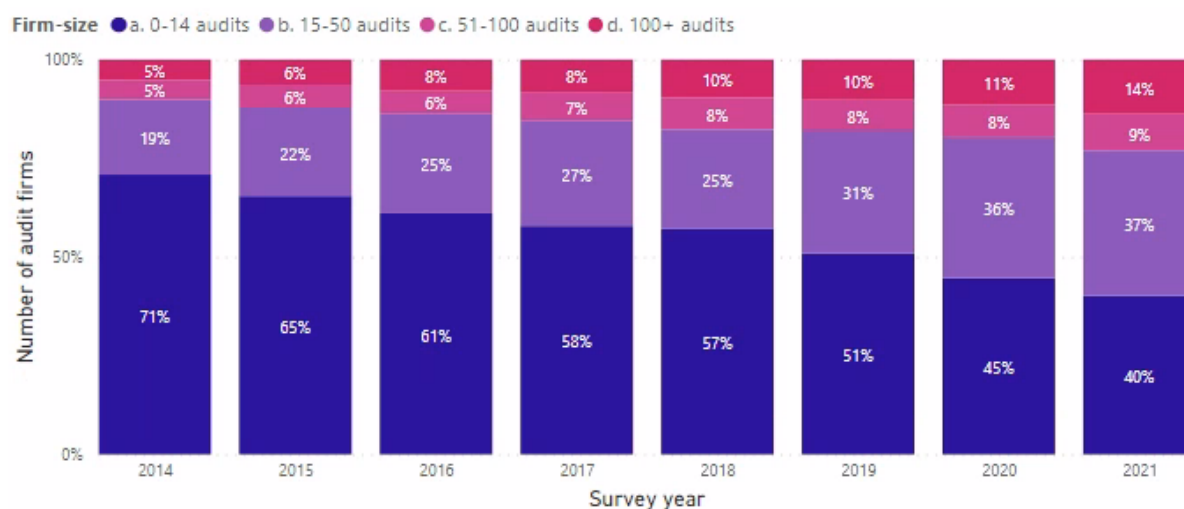
## Number of statutory audits stable, shift in audit firms' market shares

The total number of statutory audits has fluctuated to some extent since 2014 and averages around 20,000. This means that, on balance, audit firms have on average performed a larger number of audits in recent years. The number of audits rose again in 2021, due to an increase in the number of companies subject to a statutory audit.

**There is a fundamental shift in market shares.** By now, RLH AFs conduct the majority of statutory audits: while they carried out only 34% of the total number of statutory audits in 2014, this figure was around 55% by the end of 2021. In total, the RLH AFs thereby account for more than 11,000 of the 20,442 audits conducted in 2021 (figure 2.1).

**Behind this trend is a shift in statutory audits of audit clients in specific sectors.** Thus, the RLH AFs by now perform 50% or more of the audits in the building, housing association, hospitality and municipal sectors. Further investigation is needed into the specific reasons for this shift, and into whether the relevant RLH AFs have sufficient expertise to audit the audit clients in these sectors with sufficient quality. Likewise, a further analysis is required in order to determine whether these sectors present an increased audit risk.

Figure 2.2: The number of audit firms with fewer than 15 statutory audits is steadily declining



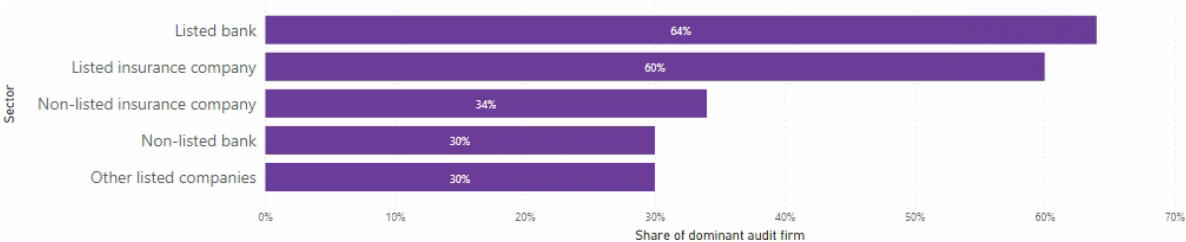
Source: AFM Monitor (2014-2021)

**The number of audit firms conducting fewer than 15 statutory audits is declining.** The AFM found in 2021 that if audit firms performed fewer than 15 statutory audits per year, there was a significantly greater chance that these audits were of sub-standard quality. Scale turned out to be a supporting and sometimes even necessary factor for investments in quality control. The number of audit firms performing fewer than 15 statutory audits per year has fallen from 304 in 2014 to 105 in 2021 (figure 2.2).

## Mandatory audit firm rotation for PIE audit clients imminent

**Within particular sectors, there is a strong concentration of PIE audit clients at the same audit firm.** The high concentration of (the number of) statutory audits of listed banks and listed insurance companies is particularly striking (figure 2.3). Another point worth noting is that SPACs procure their audit services from only a few AFs.

Figure 2.3: Sector concentration particularly visible for listed banks/insurance companies



Source: AFM data analysis (2021)

**Due to a lack of knowledge and capacity, the PIE market may find it a challenge to comply with the mandatory audit firm rotation.** Audit firm rotation was introduced in 2016. This means that many PIE clients will see the 10-year period come to an end with effect from FY 2025 and are obliged to change audit firms. A point for attention in the supervision of PIE AFs is the risk that the PIE licence holders available for rotation may not be sufficiently equipped in terms of knowledge and capacity to carry out these statutory audits; this applies in particular to audit clients in the banking and insurance sector. A general point for attention is that a bulk of mandatory rotations is imminent in 2025/2026. This contributes to the capacity challenge faced by the PIE AFs, because first-time audits generally require greater capacity. The PIE audit clients themselves are also facing the challenge of preparing the rotation in good time in collaboration with their audit committees.

### 3 Opportunities and challenges in the labour market

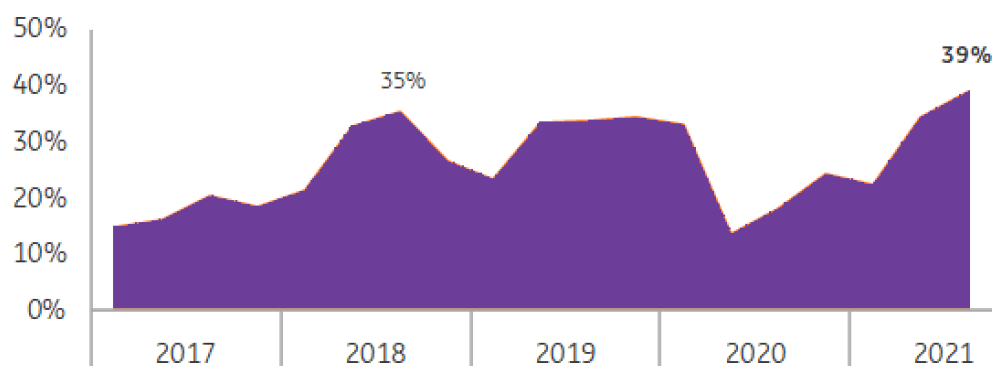
#### Opportunities and challenges for audit firms in the labour market



#### Increasing staff shortages at audit firms

**Audit firms have difficulty recruiting staff.** Four out of ten AFs are facing staff shortages, which hamper the performance of their activities (figure 3.1). Where previously these shortages occurred only in the audit practice, they now also affect the compilation and consultancy practices. Other indicators are also suggestive of a tight labour market for auditors. On recruitment website Indeed, no fewer than three audit-related professions (registered accountant, assistant accountant and accounting consultant) are in the top 10 of longest unfilled vacancies. Vacancies for bookkeepers and controllers also remain unfilled for a long period on average, while the Netherlands Institute of Chartered Accountants (NBA) has noted a high level of unfilled auditor vacancies, although there is no recent data.

Figure 3.1: Four out of ten audit firms faced staff shortages in 2021



Source: ING (2022; copied in adjusted form), Statistics Netherlands (2022)

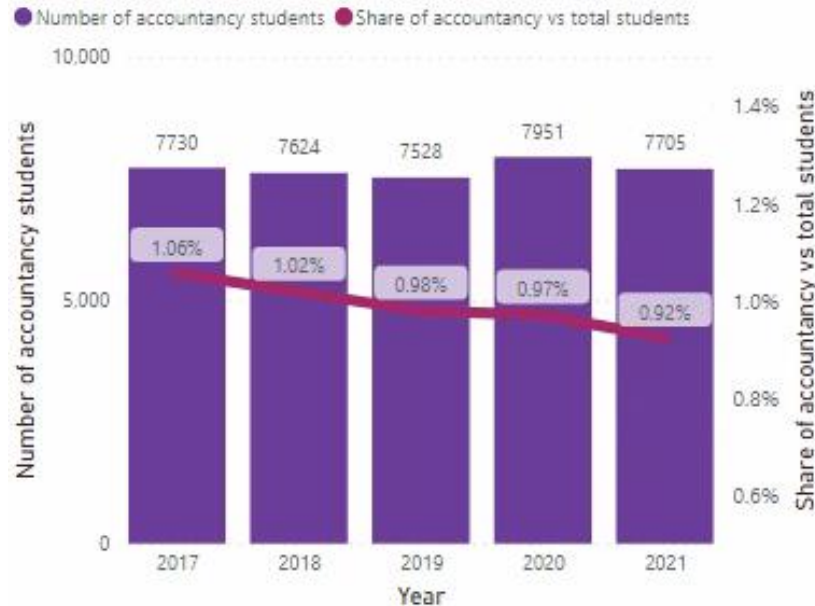
**A number of factors can explain these increasing staff shortages.** In particular, these include stagnating interest in accountancy training, possibly due in part to the debate on the partner model and the popularity of the audit profession, as well as demographic developments (ageing population, increasing outflow and decreasing inflow in the audit sector, see also below). At the same time, the demand for external auditors is expected to increase as a result of a rise in the number of companies subject to a statutory audit, the expansion of the audit scope (in particular ESG) and the growing attention for themes such as fraud, corruption and going concern.



## Inflow into accountancy stagnating, outflow still high

Interest in accountancy training has been stagnating in recent years. Although there was a slight increase in 2020 in the number of accountancy students enrolled at universities and universities of applied sciences, this figure stagnated in the period 2017-2021 (figure 3.2).

Figure 3.2: Number of accountancy students stagnating, relative decrease



Source: DUO (2021), edited by AFM

The popularity of accountancy relative to other study programmes is declining further. Students often opt for a different course of study: by contrast with accountancy, the number of economics students has risen significantly (+46% between 2017 and 2020). Accountancy student numbers have been gradually declining since 2017 also relative to the total student population enrolled at universities and universities of applied sciences (figure 3.2).

Investigating the factors that affect the popularity of the accountancy programme must remain a point for attention. In December 2019, the Dutch Accountancy Programme Learning Outcomes Committee (*Commissie Eindtermen Accountantsopleiding*, CEA) already expressed its concern about the falling number of accountancy students. This negative development must be closely monitored, certainly in light of the rising number of students in other study programmes. In 2022, the Practical Training Council (*Raad voor de Praktijk Opleidingen*, RPO) and the CEA conducted the joint project *Stip aan de horizon* ('Dot on the horizon') with the aim to design an accountancy programme that is future proof, doable, attractive and of a high quality.

Pressure on the work-life balance is a significant reason for the outflow from the profession. According to starting practitioners, reaching 'the top' within an audit firm is only possible if there is full commitment towards the employer. The Labour Inspectorate has classified the audit sector as a high-risk sector in terms of psychosocial work stress. The pressurised balance between work, studies and private life due to work stress means that 45% of starting practitioners have doubts or would not choose the audit profession again if given a second chance. These days, young auditors seem to make different demands of their work and attach less importance to status and/or the financial incentive of being a partner. They prefer greater variety in their work and are reluctant to tie themselves to one firm for an unduly long period. In addition, starting practitioners indicate that the audit sector offers insufficient space for

professional development. In this context, the Committee on the Future of the Accountancy Sector (CTA) finds that autonomy and open communication must replace hierarchy and bureaucracy in order to enhance the attraction of the profession and retain young professionals within the discipline.

**The sector itself is responsible for offering potential new joiners an attractive environment, and has taken steps in recent years to change its culture.** The PIE AFs have focused heavily on staff retention in recent years. Thus, there is more ‘training-on-the-job’ and ‘file coaching’, and partners are visibly more involved in audit teams. Furthermore, these firms actively invest in an open culture with regard to errors, focus on exemplary behaviour, encourage discussion and approachability and have permanent attention for a better work-life balance. The future will have to show to what extent these efforts will be effective. The importance of staff retention was also raised during the introductory tour of RLH AFs in the first half of 2022.

### Increasing demand for audits

**Demand for audits is rising.** For example, there is an increase in the number of companies with more than 50 employees (figure 3.3). Considering that this is one of the criteria for a mandatory statutory audit, this may eventually drive up the number of companies subject to a statutory audit. It is also possible that, due to the high rate of inflation, a greater number of companies will exceed the turnover threshold (EUR 12 million) and balance sheet threshold (EUR 6 million) for mandatory audits.

Figure 3.3: Increasing number of companies with > 50 employees, greater demand for statutory audits



Source: Statistics Netherlands (2016- 2022), edited by AFM

**Audits are also expected to become more intensive and wider in scope.** This expectation is prompted not only by the quality improvement set in motion, but also by new laws and regulations and the increasing importance of non-financial information. Finally, there are relevant temporary factors, such as the audit opinion required as part of a NOW application due to the COVID-19 pandemic.

### In response, firms tend to use temporary workers and outsourcing

**Audit firms are increasingly turning to temporary workers and outsourcing.** In addition, the PIE AFs have made increasing use in recent years of onshoring and offshoring, knowledge hubs and other staff

borrowing options. The audit firms find that this has important benefits, such as outsourcing and centralising routine activities, but it may also entail risks with regard to (1) quality (training, level, review), (2) incomplete experience of the audit cycle, which means that the knowledge gained of the company, risks and audit strategy is less than optimal, and (3) aspects pertaining to the culture of the organisation, such as a lesser degree of involvement in the audit firm. Finally, anecdotal signals highlight the increased amount of time it takes senior associates to train external staff and review the outsourced work.

**In this context, firms also hire staff with a different background.** Driven by the ‘war for talent’, audit firms hire staff members who did not study accountancy but have a background in areas such as IT, fraud detection, ESG or data analysis. On the one hand, the influx of non-auditors is necessary because of the expanding audit scope, but at the same time it may result in insufficient knowledge of the audit work.

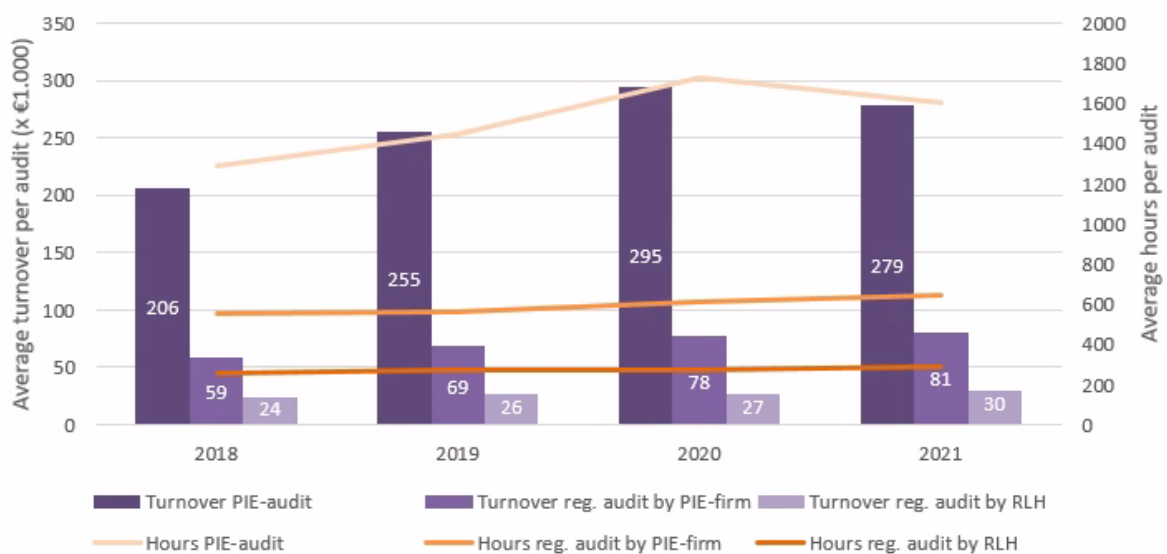
## 4 Use of available time, staff and resources



### Greater increase in turnover from audits by PIE AFs than from audits by RLH AFs

The turnover deriving from audits conducted by a PIE AF has risen more steeply in recent years than the turnover deriving from audits conducted by a RLH AF. Between 2018 and 2021, the average turnover per statutory audit of PIE audit clients (not adjusted for inflation) went up by 35%, from EUR 206,000 to EUR 279,000 per PIE audit (figure 4.1). Over the same period, the average turnover per statutory audit of regular audit clients (RACs) conducted by PIE licence holders rose from EUR 59,000 in 2018 to EUR 81,000 in 2021 (+35%). At regular licence holders, the increase in average turnover per audit is considerably lower, from EUR 24,000 in 2018 to EUR 30,000 in 2021 (+24%).

Figure 4.1 Development of turnover and time spent per statutory audit



Source: AFM Monitor (2018-2021)

**The average hourly fee shows a (slight) increase.** The average hourly rate has increased slightly in recent years, with the exception of PIE audits in 2020. Audit hours spent by PIE licence holders on conducting regular audits are around 23% more expensive than audit hours spent by regular licence holders (table 4.1).

Table 4.1 Average hourly fee (PIE licence holders and regular licence holders)

EUR per hour	PIE audits by PIE licence holders	Regular audits by PIE licence holders	Regular audits by regular licence holders
2021	EUR 174	EUR 125	EUR 103
2020	EUR 171	EUR 126	EUR 100
2019	EUR 176	EUR 123	EUR 95
2018	EUR 160	EUR 107	EUR 93

Source: AFM Monitor (2018-2021)

### Average time spent by PIE AFs on regular audits is twice the time spent by RLH AFs

On average, PIE licence holders spend twice as many hours on a regular audit compared to regular licence holders. Over the years, the average number of hours per audit presents a (slightly) upward trend (figure 4.1). In the period 2018-2021, the average amount of time spent rose by 24% for PIE audits and by 17% for regular audits by PIE licence holders; the average amount of time spent on regular audits by regular licence holders rose by 14%. To a certain extent, this can be explained by the fact that PIE licence holders on average perform more extensive and complex regular audits than RLH AFs do. The AFM will develop a data position in the coming years which will provide further insights.

### Small difference in composition of audit teams at PIE AFs and RLH AFs

The composition of the audit team during the performance of PIE audits has been stable in recent years. Since 2018, the AFM Monitor reflects a stable distribution in the time spent within the audit team at PIE licence holders on the performance of PIE audits. On average, 10% of the hours are spent by partners/directors, 24% by (senior) managers and 66% by other staff members.

Where regular audits are concerned, the composition of the audit team at PIE AFs differs only slightly from that of the audit team at RLH AFs audit. The AFM Monitor reflects a (slight) difference in hours spent between the audit teams at the PIE AFs and the regular licence holders respectively (table 4.2). A possible explanation for the difference at (senior) manager level could be that the more senior staff members at PIE licence holders are more often assigned to PIE audits.

Table 4.2 The distribution of time spent differs for different types of audit.

Time spent in 2021	PIE audits by PIE licence holders	Regular audits by PIE licence holders	Regular audits by regular licence holders
Partner/director	10%	6%	10%
(Senior) manager	24%	19%	20%
Other staff members	66%	75%	70%

Source: AFM Monitor (2021)

### Use of specialists commonplace at PIE AFs and limited at RLH AFs

The use of specialists is greater at PIE licence holders than at regular licence holders. At the PIE AFs, the use of dedicated IT specialists (around 12.1% for PIE audits and 5.5% for regular audits relative to the total number of hours spent) and other specialists has become commonplace (table 4.3). The use of dedicated fraud specialists (forensic specialists) is slightly higher for PIE audits (0.8% relative to the total number of hours spent) than for regular audits by PIE licence holders (0.3% relative to the total number of hours spent).

Table 4.3 Percentage of hours spent by specialists at PIE and regular licence holders.

Percentage of time spent in 2021 by specialists in the area of	PIE audits by PIE licence holders	Regular audits by PIE licence holders	Regular audits by regular licence holders
Actuarial	1.9%	0.2%	0.0%
Fraud	0.8%	0.3%	0.0%
IT	12.1%	5.5%	1.3%
Tax	2.2%	1.0%	0.2%
Valuation	1.6%	1.0%	0.1%
Other	2.5%	1.3%	0.0%

Source: AFM Monitor (2021)

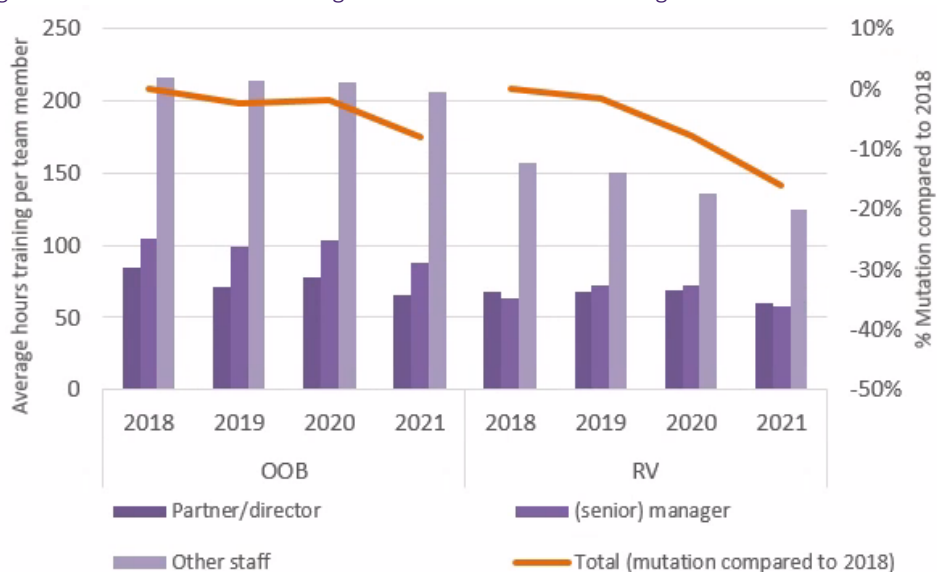
**Compared to the PIE AFs, regular licence holders make little to no use of specialists.** This has to do with the fact that the audits carried out by PIE licence holders are usually much more extensive and complex. Another reason may be that regular licence holders are less able to hire specialists because of the limited number of statutory audits conducted per audit firm.

### Time spent on training declines for each 'type' of audit team member

**The time spent on training has structurally declined in recent years, in particular at the RLH AFs.** Within the audit team at PIE licence holders, the average number of hours spent on training (weighted average across all partners, directors, (senior) managers and other staff members) in the period 2018-2021 fell from 181 to 166 hours per year (-8%); at regular licence holders this figure fell from 123 to 103 hours per year (-16%) (figure 4.2).

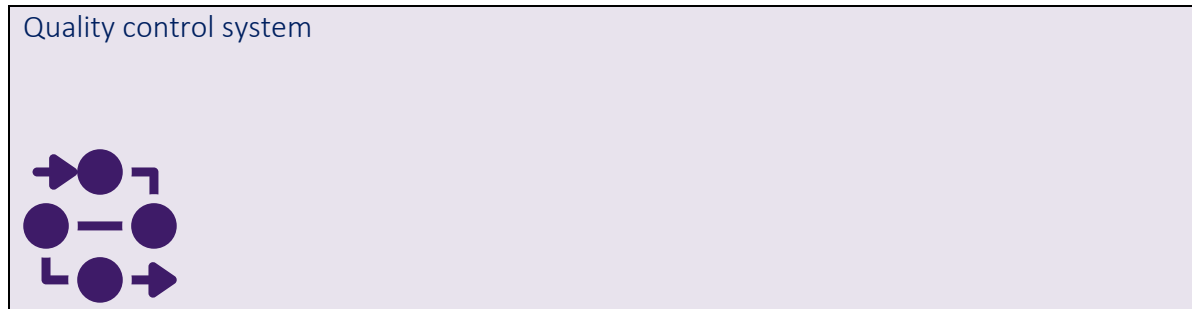
**Broken down by 'type' of audit team member, the number of hours spent on training in the period 2018-2021 decreased within each group (partners/directors, managers and other staff members).** For partners/directors, this figure fell from 84 to 66 hours (-21%) at PIE licence holders and from 68 to 60 hours (-12%) at regular licence holders. For (senior) managers, this figure fell from 104 to 88 hours (-15%) at PIE licence holders and from 63 to 57 hours (-10%) at regular licence holders.

Figure 4.2: The number of training hours for auditors is declining



Source: AFM Monitor (2018-2021)

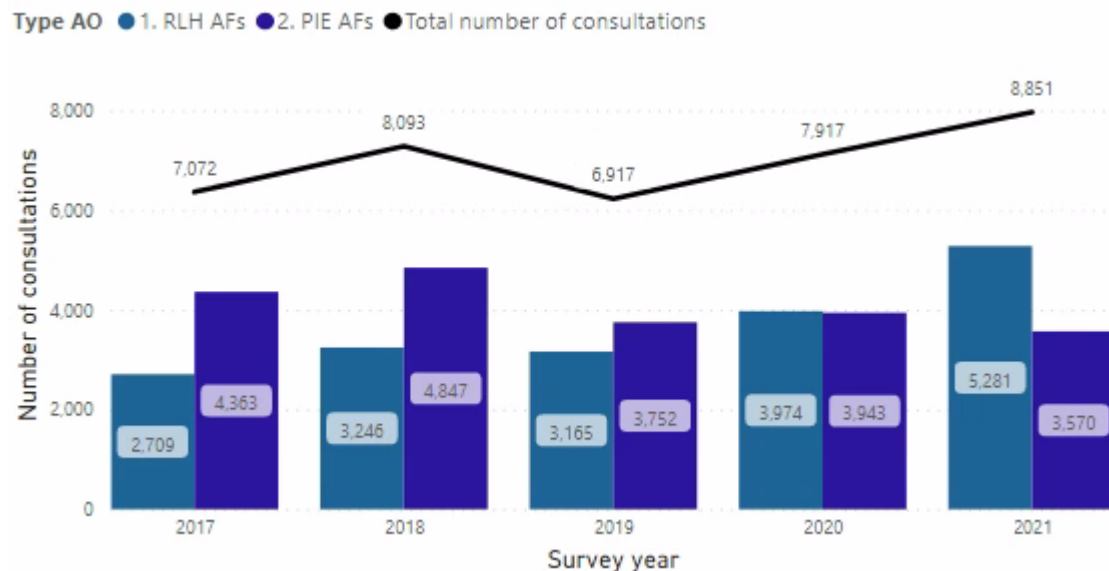
## 5 Quality control system



### Number of consultations decreasing at PIE AFs, increasing at RLH AFs

The number of consultations at PIE licence holders is falling. While around 4,500 consultations took place in 2017, this number had decreased to around 3,500 consultations by 2021 (figure 5.1). The decline in the number of consultations at PIE licence holders can be primarily attributed to a decline in consultations regarding independence. This may be the result of the expiry of various transitional arrangements, including the independence rules for audits of Public Interest Entities, for which consultations were often mandatory in transitional situations, as well as the decrease in the number of audits performed by the PIE AFs.

Figure 5.1: Regular licence holders performed an increasing number of consultations in recent years



Source: AFM Monitor (2017-2021)

Conversely, the number of consultations at RLH AFs has risen sharply. While around 2,700 consultations took place in 2017, this number had increased to around 5,300 consultations by 2021. The rise in the number of consultations at regular licence holders is probably largely the result of the mandatory consultations introduced by some regular licence holders with regard to COVID/going concern and issues

related to the NOW statements<sup>1</sup>. Likewise, regular licence holders have reported an increase in the number of consultations particularly in respect of ‘independence’, ‘going concern’, ‘money laundering’ and ‘corruption’ (table 5.1). The rise in the number of consultations is also related to the shift in market share to the regular licence holders (see Chapter 2).

Table 5.1: Sharp rise in consultations at RLH AFs on ‘independence’, ‘going concern’, ‘money laundering’ and ‘corruption’

Survey year	Fraud	Independence	Reporting	Audit	Money laundering	Corruption	Going concern	Other	Total
<b>2020</b>									
1. RLH AFs	109	704	980	1239	137	84	108	613	3,974
2. PIE AFs	554	448	591	1218	51	43	381	657	3,943
<b>2021</b>									
1. RLH AFs	119	999	1296	1162	223	124	631	727	5,281
2. PIE AFs	424	99	579	1095	31	27	648	667	3,570

Source: AFM Monitor (2020-2021)

### Use of external compliance officers is stable

The use of (external) compliance officers by regular licence holders presents a stable picture. Around 240 RLH AFs have appointed a compliance officer; 208 of them have also designated a deputy (AFM Monitor 2021). Of this number, 168 compliance officers are employed by the audit firms while 72 are external staff. The percentage of external compliance officers has remained stable in recent years at around 30%.

**Both PIE licence holders and regular licence holders have strengthened the compliance officer’s role.** Especially the large regular licence holders have strengthened this role and have given the compliance officer an independent position in the organisational structure. The PIE licence holders are also in the process of further professionalising the compliance officer’s role. In this context, particular consideration is given to the separation of responsibilities concerning compliance topics, the role of compliance and internal audit in relation to strategic themes (“thorn in the side”), and behaviour and culture.

### Downward trend in the number of IQRs and EQCRs not continuing

The downward trend in the number of Internal Quality Reviews (IQRs) during the period 2014-2020 seems to have reversed. Since 2020/2021, audit firms again perform a relatively larger number of IQRs (figure 5.2). The use of IQRs by PIE licence holders presents a relatively stable picture in this context. At the regular licence holders, we see a cautious positive turnaround in the previously downward trend in IQRs.

<sup>1</sup> NOW refers to a Dutch covid-related temporary emergency compensation for companies with loss of turnover. In some situations a statement by the auditor is needed to comply.



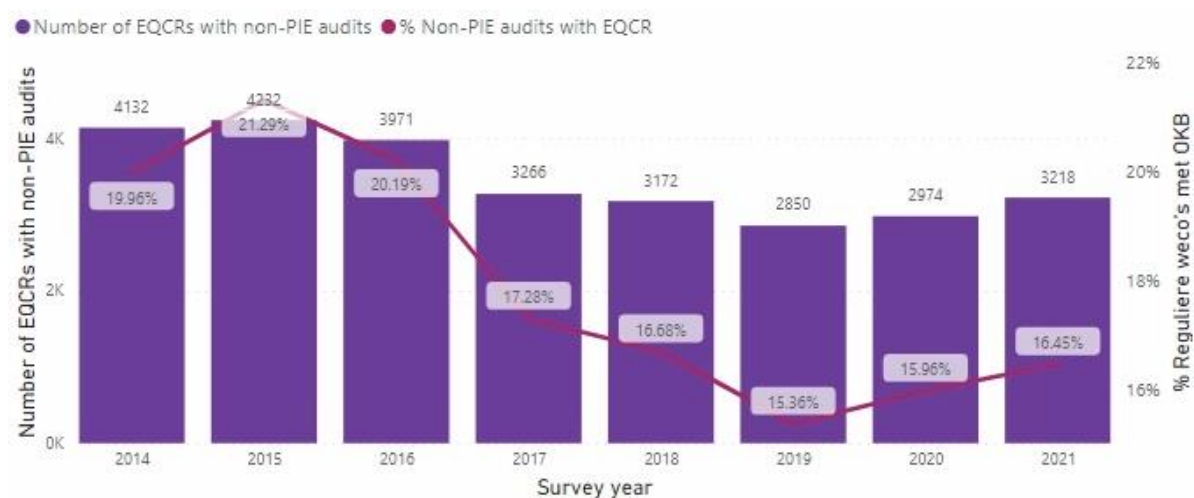
Figure 5.2: The number of IQRs is rising after years of decline



Source: AFM Monitor (2014-2021)

The number of Engagement Quality Control Reviews (EQCRs) is also on the rise again. Since 2021, PIE auditors are performing more EQCRs. On average, each external auditor is subjected to two EQCRs per year. The regular licence holders perform just over seven EQCRs on average (figure 5.3).

Figure 5.3: The number of EQCRs during regular audits has been rising since 2019 after years of decline

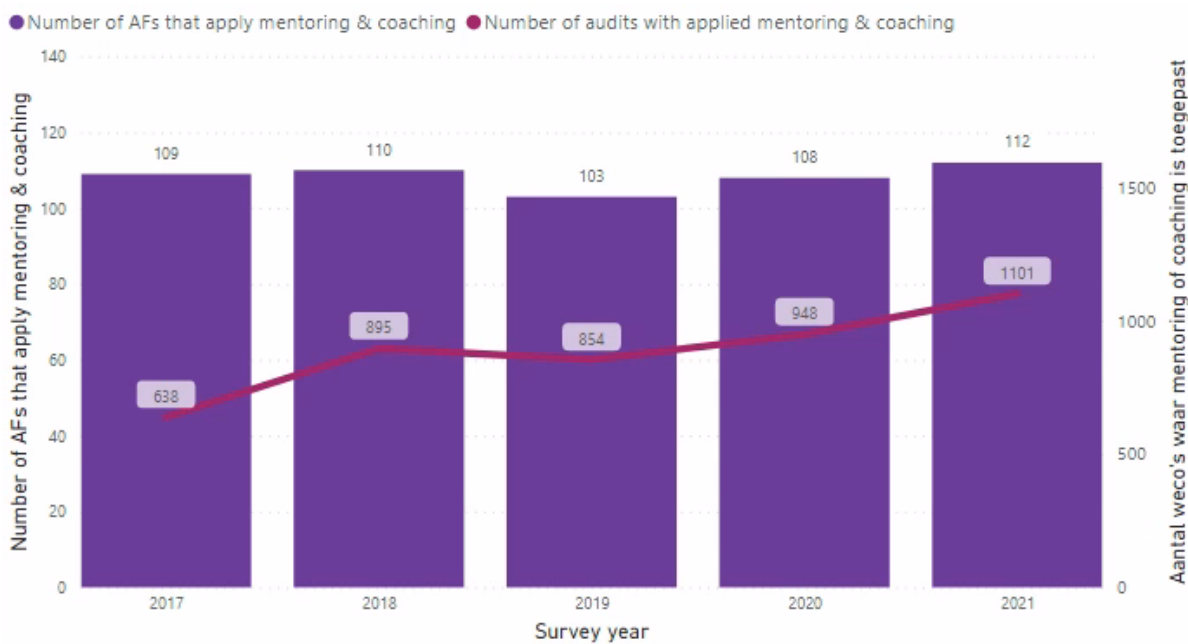


Source: AFM Monitor (2014-2021)

### More frequent use of (new) quality change measures

While conducting statutory audits, AFs use (file) mentoring & coaching increasingly frequently. Since 2019, the number of statutory audits involving (file) mentoring & coaching has gradually increased to around 1,100 as at the end of 2021; the number of AFs applying (file) mentoring & coaching has remained more or less the same, however (figure 5.4). In 2020, the AFM found that audit firms could improve the practice of file coaching by structurally identifying signals picked up in the file coaching process and sharing them in the organisation.

Figure 5.4: Mentoring & coaching is applied to an increasing number of audit files



Source: AFM Monitor (2017-2021)



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**Data classification**

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*The AFM is committed to promoting fair and transparent financial markets.*

*As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.*

The figures presented are based in part on the information provided to the AFM by the audit firms via the AFM Monitor. This annual survey relates to the most recently ended financial year of audit firms. The audit firms state that the Monitor has been completed accurately, truthfully and in full. The Monitor incorporates a number of checks, while the AFM carries out plausibility checks after receipt.

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