



Dashboard 2015

Change and improvement measures

PIE audit firms

15 October 2015

The Netherlands Authority for the Financial Markets

The AFM is committed to promoting fair and efficient financial markets.

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

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Summary

PIE audit firms are taking serious measures to implement fundamental changes and improvements

PIE audit firms are seriously embracing fundamental change and improvements in the preconditions for increasing the quality of their statutory audits and thereby acting more in the public interest.

This is the finding of the review by the Netherlands Authority for the Financial Markets (AFM) of the design of the measures audit firms are implementing in order to change their culture, organisation and processes in order to raise the quality of their statutory audits.

The review also shows that the five largest audit firms (the so-called Big 4 and BDO) are leading the way in the elaboration of these measures into vision, policy and procedures. These five audit firms perform approximately 60 per cent of all statutory audits in the Netherlands. They have made the most progress with an approach designed to effect a change in governance, culture and behaviour. These are followed at some distance by three other audit firms that conduct statutory audits of public interest entities (PIEs), while one audit firm is seriously lagging behind. Next year, the AFM will assess whether these changes have actually been effected in the organisation.

Review findings give assurance

Gerben Everts, an Executive Board Member at the AFM: *'This report gives assurance. Following our critical report on the quality of audits last year, these audit firms and the sector as a whole publicly stated their commitment to improve. The audit firms have subsequently indeed made a start on strengthening the preconditions for improved quality.'*

One year later, and especially at the five largest audit firms, we are seeing the positive results of this initiative. While there are still items requiring attention, we expect this sounder organisational structure and culture to lead to improved quality. The progress at smaller firms is still variable, and they need to make more progress.'

Observations and conclusions shown in dashboard with scores

The AFM is monitoring the implementation of the improvements. Between April and September 2015, the AFM carried out reviews at audit firms licensed to audit PIEs. The review included Accon avm, Baker Tilly Berk, BDO, Deloitte, EY, Grant Thornton, KPMG, Mazars and PwC.

The AFM considered various issues, such as the governance of the audit firm (the executive board and internal supervision) and whether the public interest is the leading consideration in the firm's culture, conduct and processes. The AFM also looked at the transparency of the audit firms towards their stakeholders and the extent to which the networks of these organisations influence quality.

The AFM has listed its observations and conclusions regarding the design of the improvement measures in its 'Dashboard 2015 Changes and Improvements'. It awarded a score of 5 to firms that completely satisfied the expectations formulated for 2015 in all respects. A score of 1 was allocated to audit firms that failed to do so.

Figure 1. Total dashboard scores 2015



Greater awareness of the importance of culture and behaviour

The PIE audit firms are more aware of the importance of culture and behaviour in the realisation of their quality objectives and as the basis of sound quality control that should ensure good audits.

Most PIE firms however still have to make further efforts in developing or addressing issues relating to behaviour and culture. For example, they need to form a more practical idea of the quality-oriented culture that they intend to achieve. In order to achieve this culture, it is also important that they adequately understand the already existing culture, for example by means of culture measurements.

Nearly all audit firms have taken measures to strengthen their governance and the structure of their supervisory board. Some audit firms, however, still need to formulate the preconditions for their supervisory board in more detail. This concerns issues such as allocating specific powers to the supervisory board that previously were allocated to the shareholders meeting or partners meeting. Other issues include the development of practical expectations for time allocation, the available knowledge, experience and authority and the independence of the supervisory board members.

Measures from the report 'In the Public Interest'

The AFM also assessed the progress made by the PIE audit firms in the implementation of measures from the NBA report '[In the Public Interest](#)'. This involved a review of 25 measures for which the initiative for implementation rested partly with the PIE audit firms. The PIE audit firms have shown serious commitment in this respect. Similarly to the scores in the Dashboard 2015, the five largest audit firms are leading the way, followed at some distance by the other PIE audit firms.

Follow-up in 2016 and 2017

With this review, the AFM has obtained insight into the design of the change and improvement measures at PIE audit firms. On this basis, the AFM will engage in consultation with these organisations regarding the progress and intensity of the change process. We will also discuss whether additional measures are needed.

From 2016, the AFM will also review the 'operating effectiveness' of the improvement measures, namely whether the vision, policy and procedures have been introduced and are observed in practice. Formal enforcement measures may ensue if it emerges that audit firms are not making adequate progress.

The AFM, moreover, conducts regular inspections of the quality of the statutory audits performed by PIE audit firms. The next report on the quality of the audits performed by the Big 4 audit firms is expected to be published in the second half of 2016. In 2016, the AFM will start to carry out suitability checks of all existing and new executive and supervisory board members at PIE audit firms. The AFM will also naturally consider the roles that these persons fulfil in the change processes at the PIE audit firms.

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1. Introduction

Between April and September 2015 the Authority for the Financial Markets (AFM) has conducted a review of audit firms licensed to audit public interest entities (PIEs) (PIE audit firms). In recent years it has become apparent that the entire sector needs to undergo fundamental change in order to improve the quality of statutory audits. The review focused on the change initiated, as well as the related future-oriented improvement measures introduced by the PIE audit firms. The review involved the following PIE audit firms: Accon avm controlepraktijk B.V. (Accon), Baker Tilly Berk N.V. (BTB), BDO Audit & Assurance B.V. (BDO), Deloitte Accountants B.V. (Deloitte), Ernst & Young Accountants LLP (EY), Grant Thornton Accountants en Adviseurs B.V. (GT), KPMG Accountants N.V. (KPMG), Mazars Paardekooper Hoffman Accountants N.V. (Mazars) and PricewaterhouseCoopers Accountants N.V. (PwC).¹

These PIE audit firms have an important part to play in the Dutch financial markets. With their audit reports, they offer assurance with regard to the reliability of the financial reporting of all enterprises that qualify as PIEs: listed legal entities, banks and insurers. In addition, the nine PIE audit firms in the review collectively account for the largest share of statutory audits in the Dutch market, since in total they perform around 66 per cent of all statutory audits in the Netherlands. Moreover, they account for approximately 85 per cent of the revenue earned by Dutch audit firms from the performance of statutory audits.² This review therefore does not concern audit firms not licensed to audit PIEs, the ‘non-PIE’ audit firms.

This review of the design of the change initiated and future-oriented improvement measures is a thematic review. The review focuses on various aspects that contribute to or affect the duty of care of the audit firm. This report consists of the AFM’s observations and conclusions regarding the changes initiated and future-oriented improvements at the PIE audit firms, represented in a dashboard with scores for seven modules.

Rationale

As a result of previous reviews³ the AFM has called on PIE audit firms to carry out thorough root cause analyses and implement suitable improvement measures. In response to these previous reviews, the PIE audit firms listed improvements that they had either already implemented or intended to implement. Following this, the report ‘In the Public Interest’ prepared by the ‘Future of the Auditing Profession’ working group set up by the Netherlands Institute of Chartered Accountants (the NBA) in September 2014 proposed measures to improve the quality and

¹ SMA Accountants N.V. (SMA) also holds a PIE licence. Since SMA does not perform statutory audits, this firm has been left out of consideration in this review.

² These percentages are derived from the information provided by all licensed audit firms to the AFM in the AFM Audit Firms Monitor 2015. See also the report ‘Sector in View – Market Analysis of Audit Firms 2010-2014’ of 14 September 2015.

independence of audits. All PIE audit firms have expressed their commitment to implement the proposed measures in their organisations. Furthermore, IFIAR, the international organisation of supervisors of audit firms, placed the items of root cause analysis and the governance of audit firms on its agenda and recently discussed these items at a meeting in Taipei in April 2015.

One of the measures in the report 'In the Public Interest' concerned the proposal that the AFM should include the measures described in that report in its supervision. The 'In the Public Interest' report also states that the public reports from the AFM, which since last year have included specific findings with respect to individual audit firms reviewed, meet the needs of stakeholders with respect to specific and concrete information concerning the measures taken by the audit firms and the supervisor when inadequate quality is identified. In a letter to the Dutch House of Representatives regarding the evaluation of the Audit Firms Supervision Act, the Minister of Finance confirmed that the sector itself has primary responsibility for implementing the necessary improvements with energy and effectiveness. The Minister also stated that the AFM would supervise this implementation and would test whether the measures were being implemented without delay and that they were having the desired effect. With this review therefore, the AFM is fulfilling its statutory duty as a supervisory authority and responding to calls from the sector itself to assess the implementation of improvements and to report on this with reference to individual firms.

Dashboard

The findings of this review are shown in the form of a dashboard consisting of seven modules and the scores awarded to each of them. In its review, the AFM formulated seven modules that reflect the system within which statutory audits are performed and in which changes are needed to improve the quality of statutory audits and also to ensure the improvement is permanent.

The modules are:

1. Executive board
2. Quality-oriented culture
3. System of quality control and monitoring
4. Internal supervision
5. Relationship of the audit firm to its environment
6. Network
7. Change

³ See for instance the public reports of 25 September 2014 'Results of the inspection of the quality of statutory audits at the Big 4 audit firms' and of 21 March 2013 'Report on AFM inspection of the quality of audit and system of quality control and quality monitoring at nine PIE licence holders'.

The AFM has formulated objectives for these modules for the medium to longer term and expectations for 2015.⁴ These are based on applicable legislation and regulations (in particular, the duty of care, the system of quality control and the requirement of ethical and controlled business operations), the problem analyses and proposals for improvement as described in the report ‘In the Public Interest’, the detailed recommendations and suggestions of the AFM in recent years and the measures formulated by the audit firms, including those prompted by these reviews.

For each module, the AFM established whether the PIE audit firms meet the expectations for 2015. The AFM has evaluated this on the basis of the information it received from the PIE audit firms in the period from 1 May to 28 September 2015.

The AFM’s expectations for 2015 concern the *design* of the change and improvement measures: having a vision, policy, procedures and descriptions. The AFM considers the formulated expectations to be ambitious, but also reasonable. A properly developed design of the change and improvement measures is an essential basis for adequate *operating effectiveness*: are the vision, policy, procedures and descriptions actually observed in practice? And do they ultimately have the desired effect on the quality of statutory audits? The AFM has not yet tested the operating effectiveness in this review: we will start doing so as from 2016.

The AFM has assessed the design of the change and improvement measures for each module, assigned a score and included this in the dashboard. The AFM’s evaluation is shown in scores ranging from 1 to 5. The meaning of the five scores is shown in the table below.

Table 1. Meaning of the scores

5	A score of 5 is allocated if in the opinion of the AFM the audit firm fully meets all the relevant elements of the expectation formulated for 2015.
4	A score of 4 is allocated if in the opinion of the AFM the audit firm fully meets the majority of the relevant elements of the expectation formulated for 2015.
3	A score of 3 is allocated if in the opinion of the AFM the audit firm partly meets the majority of the relevant elements of the expectation formulated for 2015.
2	A score of 2 is allocated if in the opinion of the AFM the audit firm does not adequately meet the relevant elements of the expectation formulated for 2015.
1	A score of 1 is allocated if in the opinion of the AFM the audit firm does not meet the relevant elements of the expectation formulated for 2015.

These scores accordingly relate to the *design* of the change and improvement measures. The scores are not an indication of current or future practical implementation and the operating effectiveness of the change and improvement measures. Furthermore, in this review the AFM has

⁴ See section 5.4 for further explanation of the formulation of the targets and expectations. The targets formulated for each module for the medium to longer term are shown in appendix I.

not formed an opinion regarding the quality of the statutory audits that the PIE audit firms have performed. This assessment will be expressed in future reports, and where possible the AFM will strive to identify links between change and improvement measures and the quality of the statutory audits performed.

Measures from the report 'In the Public Interest'

In addition to testing the AFM's expectations for 2015, the AFM has also established the progress made by the PIE audit firms in implementing the measures from the report 'In the Public Interest'. In its review, the AFM has included the 25 measures for which introduction is wholly or partially the responsibility of the PIE audit firms themselves.⁵ The AFM has assessed the substance of the information received from the PIE audit firms in this respect. The AFM has moreover determined whether the PIE audit firms meet the formulated expectations of the NBA on 1 May 2015 and also whether the PIE audit firms have perhaps already made further progress in the implementation of these measures. In line with the review of the expectations of the AFM for the seven modules, with respect to the measures from the report 'In the Public Interest' the AFM has also exclusively established the *design* of the measures and has not assessed the *operating effectiveness* of the measures in practice.

Follow-up

With this review, the AFM has obtained insight into the design of the change and improvement measures at PIE audit firms. Based on this insight, the AFM can provide information to interested parties such as users of financial statements and the legislator and regulator in this generic report. Moreover, this insight enables the AFM to intensify the dialogue already initiated with the PIE audit firms regarding the change process at their organisations. Is the change process progressing with sufficient vigour and effectiveness? Are other or additional measures needed now or in the future?

From 2016 the AFM will conduct follow-up reviews that will also consider the *operating effectiveness* of the changes and improvement measures: are the vision, policy, procedures and descriptions in the design actually observed in practice? Expectations will accordingly be formulated with respect to each module on the basis of the medium to longer term objectives for the module in question. These expectations will serve as the basis for the scores in the dashboard for 2016. If the AFM concludes that a PIE audit firm is achieving inadequate progress or vigorousness in the implementation of the improvements, the AFM will consider imposing formal enforcement measures to enforce the necessary degree of progress and vigour in both design and operating effectiveness.

⁵ For the other 28 measures, the initiative for introduction rests with other parties, such as the NBA, the legislator, the Commissie Eindtermen Accountancy (CEA), the Monitoring Committee for the Corporate Governance Code, the Dutch Accounting Standards Board (RJ), the AFM, universities and institutes of higher education.

The AFM moreover conducts regular inspections of the quality of the statutory audits performed by PIE audit firms. The next report on the quality of the audits performed by the Big 4 audit firms is expected to be published in the second half of 2016. In 2016 the AFM will start to carry out suitability checks of all existing and new executive and supervisory board members at PIE audit firms. Naturally, the AFM will also consider the roles of these persons in the formulation and implementation of the change processes and the implementation of improvement measures at PIE audit firms.

Structure

The contents of this report are arranged as follows: Section 1 contains the introduction. Section 2 describes the conclusions, follow-up and the limitations of this review. Section 3 lists the scores per module accompanied by the related explanation. Section 4 describes the AFM's findings with respect to implementation of the measures from the report 'In the Public Interest'. Section 5 gives a more detailed description of the rationale, purpose, design and conduct of the review. Appendix I contains the score tables applied by the AFM in the allocation of scores as stated in section 3. The responses from the nine PIE audit firms can be found on the AFM website.

2. Conclusions by the AFM

This section lists the AFM's conclusions as a result of its assessment of the seven modules based on two overall themes (sections 2.1-2.2), the implementation of the measures from the report 'In the Public Interest' (section 2.3) and an overview of the overall conclusions with specific items of attention for each PIE audit firm (section 2.4). The section concludes with a description of the follow-up after completion of this review (section 2.5) and the limitations of this review (section 2.6).

2.1 Overall picture of the *design* of change and improvement measures at PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of the seven modules. The total scores (the average scores on the seven modules) for the *design* of the change and improvement measures at the PIE audit firms are shown in table 2.⁶

Table 2. Total dashboard scores 2015

Total	Score
KPMG Accountants N.V.	4.6
Ernst & Young Accountants LLP	4.1
Deloitte Accountants B.V.	4.0
PricewaterhouseCoopers Accountants N.V.	4.0
BDO Audit & Assurance B.V.	3.5
Grant Thornton Accountants en Adviseurs B.V.	3.0
Baker Tilly Berk N.V.	2.9
Mazars Paardekooper Hoffman Accountants N.V.	2.8
Accon avm controlepraktijk B.V.	1.7
Average	3.4

⁶ The overall score is calculated as the average of the scores at module level, with the modules Relationship of the audit firm to its environment (module 5) and Network (module 6) being assigned half the weight of the other modules due to their exploratory nature.

The AFM notes that nearly all the PIE audit firms have taken serious steps to bring about fundamental change and to improve since the publication of the report 'Results of the inspection of the quality of statutory audits at the Big 4 audit firms' by the AFM and the report 'In the Public Interest' from the 'Future of the Auditing Profession' working group.

The five largest audit firms, the Big 4 and BDO, are leading the way in the development of measures to improve the vision, policy and procedures and the change in culture and behaviour needed to bring this about. All these audit firms have a total rounded score of four or higher, ranging from 3.5 for BDO to 4.6 for KPMG. This means that in the opinion of the AFM they **fully** meet the expectations formulated for 2015 for **most** modules and for **the majority** of the relevant elements. There are visible differences between these five audit firms in both the total scores and the scores for the individual modules. In the AFM's view, all five organisations still have items of attention that need to be addressed to fully meet the expectation. These items of attention vary for each module for each of the organisations, both in terms of nature and the intensity of the progress that still needs to be made. We refer in this respect to section 2.4 of this report.

The PIE audit firms that are following behind (BTB, GT and Mazars), have total scores of around three. This means that in the opinion of the AFM they **partly** meet the expectations formulated for 2015 for **most** modules and for **the majority** of the relevant elements. The differences between the total scores and the individual module scores in this group are relatively limited. At module level, there are exceptions in the form of scores of 4 and 2. A score of 2 at module level means that the expectations for 2015 have not been adequately met. In the opinion of the AFM, these three PIE audit firms still need to make substantial efforts to fully meet the expectation. This is especially the case if one looks ahead to the subsequent phase in which the operating effectiveness of the improvement measures will also be assessed by the AFM. These items of attention vary for each audit firm and for each module, both in terms of nature and the intensity of the progress that still needs to be made. We refer in this respect to section 2.4 of this report.

Lastly, the AFM notes that one PIE audit firm is lagging behind the market (Accon). In the opinion of the AFM, this audit firm has **not adequately** met the expectation formulated for 2015. In the AFM's opinion, this firm has so far made little progress on elaborating the improvements in its vision, policy and procedures and the change in culture and behaviour that is needed. Accon itself has stated that it takes the recommendations extremely seriously, that it has substantially accelerated the pace of change and has accelerated its investment in human resources and systems.

2.2 Change themes

The AFM distinguishes two overall change themes in the seven dashboard modules. A theme consists of modules or elements thereof that are intrinsically interrelated. The AFM has determined a score for each theme on the basis of the sub-scores per element explained below with weighting factors as stated in the tables of scores in the appendix to this report.

The AFM's conclusions and observations mainly concern the following two themes:

- *Change and culture.* This theme primarily concerns the substance of the change, the role of the executive board therein, the process and embedding of the change in the organisation and combines the scores on the following elements:
 - The vision of change and the approach to change based on a thorough root cause analysis (module 7 *Change*);
 - The structural embedding of the performance of root cause analyses in the organisation (an element of module 3, *Quality control system*);
 - The description of the quality-oriented culture, the starting points for carrying out a review of the culture and how policy with respect to assessment, remuneration, promotion and sanctions contributes to a quality-oriented culture (module 2, *Quality-oriented culture*); and
 - The description of the executive board's quality-oriented vision and the role of the executive board in expressing a quality-oriented culture (elements of module 1, *Executive board*).
- *Governance and control.* This theme deals primarily with the structure whereby the organisation ensures and monitors that it has a quality-oriented vision and culture and is made up of the scores on the following elements:
 - The powers of the internal supervisory bodies, the way in which qualities such as authority, time, knowledge and experience are interpreted with regard to the internal supervisory body and the safeguards with respect to the independence of the internal supervisory body (module 4, *Internal supervision*);
 - The description of how the organisation is in control and the way in which qualities such as diversity, authority, time, knowledge and experience are interpreted with regard to the executive board (elements of module 1, *Executive board*);
 - The way in which the knowledge and competences of auditors and other employees are kept up to standard (element of module 3, *Quality control system*);
 - The identification and analysis of factors that could positively or negatively influence the quality of statutory audits and that are related to being part of a national or international network (module 6, *Network*).

These two themes are explained further in the following paragraphs.

2.2.1 Change and culture

The average scores of all PIE audit firms on the module elements that relate to 'change and culture' are shown in the table below.

Table 3. Average scores on 'change and culture'

Change and culture	Score
KPMG Accountants N.V.	4.6
Deloitte Accountants B.V.	3.5
Ernst & Young Accountants LLP	3.4
PricewaterhouseCoopers Accountants N.V.	3.4
BDO Audit & Assurance B.V.	3.2
Mazars Paardekooper Hoffman Accountants N.V.	2.6
Baker Tilly Berk N.V.	2.5
Grant Thornton Accountants en Adviseurs B.V.	2.4
Accon avm controlepraktijk B.V.	1.3
Average	3.0

The average total score for this theme (3.0) and the significant variation in the scores (from 1.3 to 4.6) show that most of the PIE audit firms still need to make progress, and in some cases significant progress, and that they only partially meet the expectations for 2015. The AFM notes that the largest audit firms (the Big 4 and BDO) are more advanced in this respect than the group of PIE audit firms following them.

In this review, the AFM has established that the PIE audit firms have become more aware of the importance of culture and behaviour in the achievement of quality objectives. This is an important addition to the attention devoted to more technical aspects of the quality control system and the organisational structure. This awareness is expressed for instance in the tone at the top and the nature of the improvement measures that are increasingly focused on culture and behaviour.

The AFM notes that the PIE audit firms are engaged in reviewing their vision with respect to quality, embedding the public interest in the mission of the organisation and determining the implications of this for the desired culture and behaviour of their employees.

The AFM takes the view that understanding when quality is adequate is desirable. It also provides insight into the behaviour needed to achieve a quality-oriented culture. The majority of the PIE audit firms have not yet entirely achieved this level in their development of a quality-oriented vision and culture.

The AFM moreover notes that most PIE audit firms still have to undergo a development or deepening phase with reference to the embedding of quality and desirable behaviour in their processes and procedures, including their quality processes and procedures. The AFM considers the importance of quality in the policy regarding evaluation, remuneration, promotion and sanctions still needs to be increased, so that this policy makes a greater contribution to a quality-oriented culture.

Nearly all the PIE audit firms have embarked upon the necessary change. The AFM sees differences in the approaches taken by the various firms. The fact that there are differences is perfectly explainable and logical. The AFM does not expect audit firms to follow one blueprint or one specific model in their approach to change. The AFM understands that each audit firm operates and changes within its own context. However, the AFM has established that only a limited number of PIE audit firms have developed a balanced and consistent plan for all parts of the organisation. The other PIE audit firms are having difficulty with this. These audit firms apparently make little use of expertise from other disciplines or external support. This also applies to the conduct of a culture review. The AFM has seen some good examples, but also notes that the majority of the audit firms have still not developed a completely consistent and balanced approach to assessment of culture.

The AFM notes that the majority of the PIE audit firms have not sufficiently used the instrument of root cause analysis as a basis for their approach to change. A root cause analysis investigates the deeper underlying causes affecting the quality of statutory audits. This may involve both quality-enhancing and quality-limiting factors. Furthermore, the instrument of root cause analysis is still applied in very diverse ways. Some PIE audit firms formulated a thorough process last year to obtain continuous insight into the causes of factors that positively or negatively affect audit quality. Nonetheless, the AFM takes the view that the root cause analyses conducted by most PIE audit firms still need to be improved. The AFM also takes the view that these audit firms still do not make sufficient use of root cause analyses to identify positive incentives for quality and use these insights for instance in the formation of a learning organisation. The AFM moreover notes that at several PIE audit firms the root cause analyses primarily focus on one individual statutory auditor and do not adequately consider other organisation-wide aspects such as governance and culture.

2.2.2 Governance and control

The average scores of all PIE audit firms on the module elements that relate to 'governance and control' are shown in the table below.

Table 4. Average scores on 'governance and control'

Governance and control	Score
Ernst & Young Accountants LLP	4.8
KPMG Accountants N.V.	4.7
PricewaterhouseCoopers Accountants N.V.	4.6
Deloitte Accountants B.V.	4.5
BDO Audit & Assurance B.V.	3.9
Grant Thornton Accountants en Adviseurs B.V.	3.7
Baker Tilly Berk N.V.	3.5
Mazars Paardekooper Hoffman Accountants N.V.	3.3
Accon avm controlepraktijk B.V.	2.0
Average	3.9

The average total score for this theme (3.9) and the range of the individual scores (from 2.0 to 4.8) show that the majority of audit firms have made more progress with respect to meeting the expectation for 2015 on this theme than they have for the 'change and culture' theme, but that some PIE audit firms still have to make progress or significant progress in this respect.

Governance

Audit firms have a specific structure in which the partners work together on the basis of a collective interest in conducting their business. The AFM has reiterated the point made by the 'Future of the Auditing Profession' working group that the partnership model used by audit firms needs to be strengthened with generally accepted corporate governance principles. The formation of a supervisory board (SB) with external independent members is an important step that encourages a critical view of the own organisation and culture that can ensure that the audit firm gives a central priority to serving the public interest. The mandate of the executive board will also be less dependent on the preferences of partners or shareholders and the suitability of executive board members will be considered in a wider context. An SB can therefore contribute to mitigating the possible incentives that could negatively affect audit quality. An SB can also contribute to greater focus on the long term in the decision-making at the audit firm.

The AFM notes that nearly all audit firms have made progress in strengthening their governance and the formation of an SB. The AFM acknowledges that there may be tension arising from the specific properties of a partnership model in which the partners are both shareholders in the

organisation and at the same time determine the quality of the service provision. The AFM considers that recognising this is essential for the SB to be sufficiently strongly positioned within the organisation. The majority of the PIE audit firms have shown with respect to this tension that they have transferred important powers from the partners (represented in the general meeting of shareholders, or GMS) to the SB, such as approval of partner appointments and the strategic vision with respect to quality.

The AFM also notes that the majority of the PIE audit firms have a clear understanding of the preconditions necessary for a properly functioning SB, such as adequate time, knowledge and experience and the authority of the SB members. These preconditions need to be further developed in accordance with the specific features of the firm in question in some cases. This also applies to the independence of the SB. In the opinion of the AFM, several audit firms have not yet formulated provisions for ensuring the independence of the SB for their specific firm in sufficient detail. This concerns both independence with respect to the audit clients and with respect to the audit firm itself. For an SB to objectively and credibly fulfil its role with respect to the public, the AFM considers that practical rules for the SB that apply specifically to the audit firm are needed. This ensures that there can be no misunderstanding regarding the completely independent formation of the SB.⁷

In the allocation of scores in this review, the AFM did not consider the scope of the independence provisions formulated by the sector itself with respect to audit clients. Should SB members for example be completely independent of *all* audit clients of the audit firm, or are the independence rules restricted to a specific and limited group of audit clients? The AFM considers that further dialogue concerning this scope is needed, since it does not see the application of a too rigid limitation as explainable to the public.

In this review, the AFM specifically did not form any opinion with regard to the suitability of SBs already formed and their members. The AFM expects to start this kind of suitability testing in 2016 on the basis of new legislation in this respect.

Control

With respect to the control of an audit firm, the AFM notes that the PIE audit firms are moving towards a broader vision of the meaning of being in control that includes attention to aspects relating to quality and behaviour as well as the instrumental and organisational aspects. The AFM has seen a number of good examples of models for continuous monitoring of the approach to change and intervening when necessary. At the same time, the AFM notes that the short-term and long-term control measures at several audit firms are not always mutually consistent. For instance, the AFM sees a situation in which the vision of the audit firm with respect to being in control focuses on ensuring the continuity of quality in the long term while its monitoring focuses

⁷ The current formulation of the rules governing independence (the ViO) does not take account of strengthening internal supervision within audit firms through the formation of an SB.

mainly on the short term. On the other hand, the AFM also sees situations in which audit firms do not apparently focus enough on the short-term measures needed to conduct their 2014/2015 audits with sufficient quality. Audit firms are faced with the challenge of developing a structure in addition to their compliance structure that gives the organisation insight into whether in the long term it is in control in a wider sense than exclusively with respect to the instrumental aspects of the quality control system. Furthermore, this structure has to introduce monitoring or planned measures in the short term.

The AFM considers it important that the audit firms recognise the field of tension in which they operate. The fact that it is part of a network is another important consideration. The firms work within a national network together with other organisations in a wide field involving tax, financial, IT, organisational and in some cases legal advice. Moreover, nearly all PIE audit firms are part of an international network. How these firms operate in the Netherlands is affected to a greater or lesser extent by the international network, depending on the way in which the entities within each network work together. The tensions inherent in operating within a network are important input for an audit firm to be in control and for the agenda of the SB. The AFM notes that the Big 4 audit firms recognise the influence of both their national and international networks on the quality of their audits. Regarding the other PIE audit firms, the AFM is of the opinion that more attention is needed for to a thorough analysis of these tensions, such as common strategy and growth targets, that could potentially negatively affect quality. The AFM also considers that these PIE audit firms could increase their awareness of how the network can contribute to the quality of statutory audits.

2.3 Measures from the report 'In the Public Interest'

In this review, the AFM has established that the nine PIE audit firms are seriously engaged in the implementation of the measures from the report 'In the Public Interest'. The extent of their progress in this respect varies.

Similarly to the AFM's conclusions as regards the seven modules of the dashboard, the five largest audit firms (the Big 4 and BDO) are leading the way in the implementation of the measures from the report 'In the Public Interest'. They have met most of the expectations formulated by the NBA as of 1 May 2015. Furthermore, they have already made a start on elements of the measures to be implemented at a later date. The other PIE audit firms are also following. They meet the expectations set by the NBA as of 1 May 2015 to a lesser extent and so far have made very little progress on the elements of the measures to be implemented later.

A number of the measures, mainly those relating to the items of 'culture and behaviour' and 'evaluation and remuneration', concern the evaluation of the present situation and considering what changes are needed in order to be able to comply with these measures. Most PIE audit firms meet the expectations that the NBA had formulated as of 1 May 2015.

With respect to the measures relating to items 'governance' and 'quality measurement and improvement', the NBA's expectations were more focused on practical action by audit firms. The AFM's conclusion here is that several PIE audit firms do not meet the expectations formulated by the NBA, either generally or in relation to specific elements.

The measures relating to the item 'governance' require PIE audit firms to have arranged all the design aspects for having an effectively operating SB in the near future. This requires for instance profile descriptions, regulations, descriptions of duties and other organisational measures. The report 'In the Public Interest' states that audit firms should seek to reflect the principles of the Dutch Corporate Governance Code (the Code). This involves having design arrangements for a large number of very detailed issues in place. The AFM concludes that several PIE audit firms have not yet arranged all these matters completely.

Various PIE audit firms have stated that measures have been 'fully implemented' in the information they provided to the AFM. Nonetheless, the AFM concludes in some cases that the actual implementation does not fully comply in certain respects with the measures formulated in the report 'In the Public Interest'. For example, this concerns the proposed changes to policy for the conduct of engagement quality control reviews (the EQCR policy). The measure in the report 'In the Public Interest' states that *several* files of each audit partner must be subjected to an EQCR annually. Some PIE audit firms have determined that *one* file or a certain *percentage* of the files of each audit partner have to be subjected to an EQCR. This, however, does not ensure that this will include *several* files for each audit partner. Another example concerns the design of the process to be followed if it is established that the audit files of an audit partner do not meet the quality

requirements. The measure in the report 'In the Public Interest' states that an improvement plan should be applied for a period of *two* years and that the number of EQCRs should be significantly increased. After two years, an evaluation should be made and it should be determined whether an audit partner should continue to be an authorised signatory. Some PIE audit firms have deviated from this measure by deciding that improvement plans should be applied for a duration of *one* year. Some PIE audit firms have also not explicitly determined that the EQCRs should be intensified or that there should be an explicit decision as to whether the audit partner can continue to be an authorised signatory.

The AFM calls on the PIE audit firms to vigorously implement the remaining elements of the measures. The AFM also considers it important with reference to various measures that the sector assesses whether in its current formulation it is achieving the sector's intended objective.

A complete overview of our assessment of the implementation of the measures in the report 'In the Public Interest' is given in section 4 of this report.

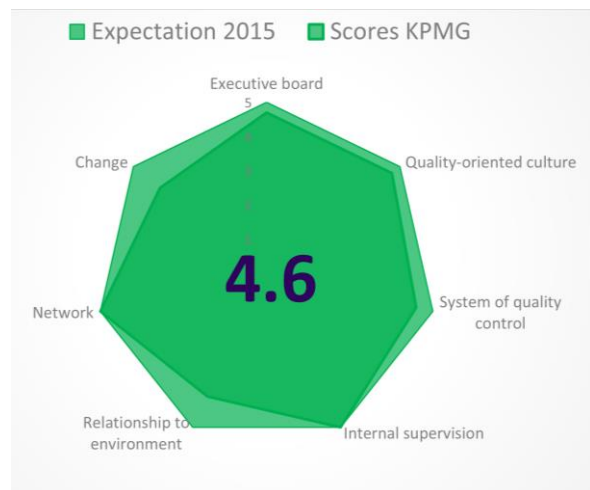
2.4 Conclusions and items of attention for each PIE audit firm

This paragraph lists the total score for each PIE audit firm and the items that according to the AFM still require attention from the audit firm concerned.

Scores KPMG

KPMG scores an average of 4.6 for the seven modules. In the opinion of the AFM, KPMG accordingly meets most of the expectations for 2015. The following items require the attention of KPMG:

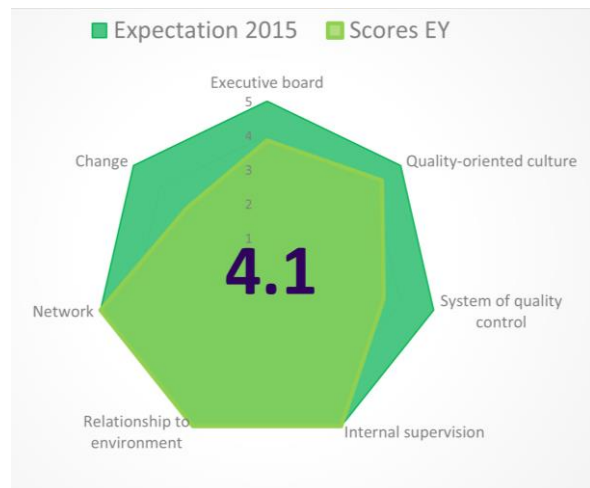
- the structuring of the reporting line to the executive board with respect to the organisation being in control;
- the formulation of an action plan for the way culture reviews are employed, also to support the approach to change.



Scores EY

EY scores an average of 4.1 for the seven modules. In the opinion of the AFM, EY accordingly meets most of the expectations for 2015. The following items require the attention of EY:

- obtaining insight in a structured way into:
 - the causes of factors that affect quality positively and negatively;
 - the degree to which the organisation is designed to be in control;
- the translation of the quality-oriented vision into the business processes and procedures and actual desired behaviour by employees;
- bringing the sanctions policy into line with the vision for quality-oriented culture.



Scores PwC

PwC scores an average of 4.0 for the seven modules. In the opinion of the AFM, PwC accordingly meets most of the expectations for 2015. The following items require the attention of PwC:

- the development of:
 - the change vision in a consistent and balanced way in order to achieve the desired culture;
 - the quality-oriented vision into actual desired behaviour by employees;
 - the weight of quality in evaluation and remuneration policy;
- the determination of what the organisation expects of its executive board with respect to diversity, time, knowledge and experience and authority as appropriate to the organisation.



Scores Deloitte

Deloitte scores an average of 4.0 for the seven modules. In the opinion of the AFM, Deloitte accordingly meets most of the expectations for 2015. The following items require the attention of Deloitte:

- obtaining insight into the current organisational culture by conducting or arranging for a culture review;
- translation of the quality-oriented vision into actual desired behaviour by employees;
- embedding all the steps in root cause analyses in the quality control system;
- limiting the number of internal SB members to not more than one, in line with the measures formulated in the report 'In the Public Interest'.



Scores BDO

BDO scores an average of 3.5 for the seven modules. In the opinion of the AFM, BDO accordingly meets some of the expectations for 2015. The following items require the attention of BDO:

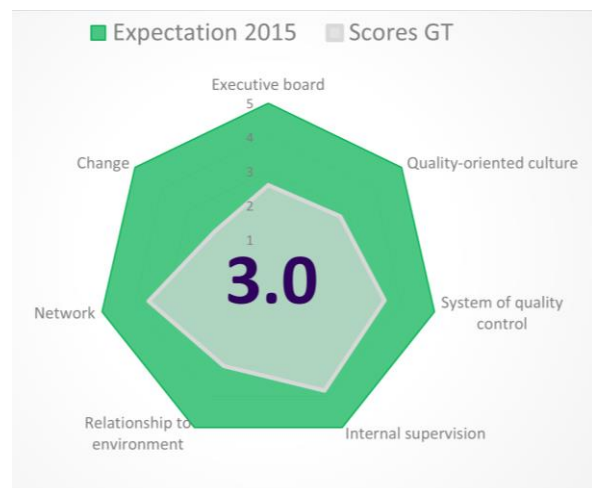
- obtaining insight into:
 - the causes that positively and negatively affect the quality of statutory audits;
 - the current organisational culture;
 - the factors that limit and enhance quality related to operating in a network;
- defining the details of the change vision (who, what and how);
- developing the quality-oriented culture with respect to the actual desired behaviour of employees in mutual cooperation and the ability to learn;
- development of the organisation being in control with respect to the monitoring apparatus, measuring indicators and the reporting line to the executive board.



Scores GT

GT scores an average of 3.0 for the seven modules. In the opinion of the AFM, GT accordingly meets some of the expectations for 2015. The following items require the attention of GT:

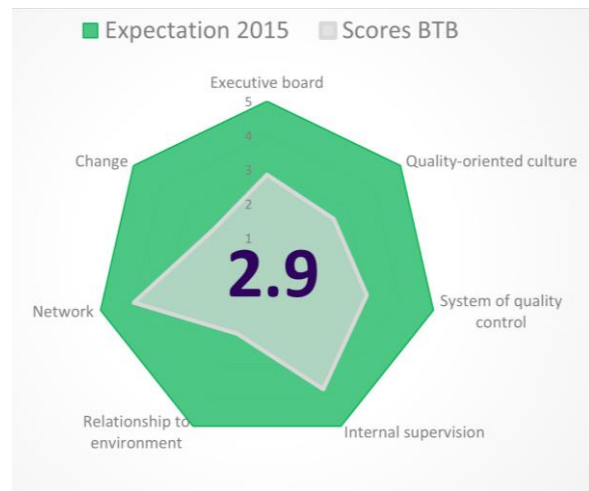
- obtaining insight into:
 - the causes that positively and negatively affect the quality of statutory audits;
 - the current organisational culture;
 - the factors that limit and enhance quality related to operating in a network;
- development of the organisation being in control with respect to both scope and the monitoring apparatus;
- defining the details of the change vision (who, what and how);
- the practical development of:
 - inclusion of the public interest in the quality-oriented vision;



- the quality-oriented culture with respect to the actual desired behaviour of employees and the related policy with respect to evaluation, remuneration, promotion and sanctions;
- the determination of what the organisation expects of its executive board and SB with respect to diversity, time, knowledge and experience and authority as appropriate to the organisation;
- establishing the details of the independence requirements for the SB.

Scores BTB

BTB scores an average of 2.9 for the seven modules. In the opinion of the AFM, BTB accordingly meets some of the expectations for 2015. The following items require the attention of BTB:

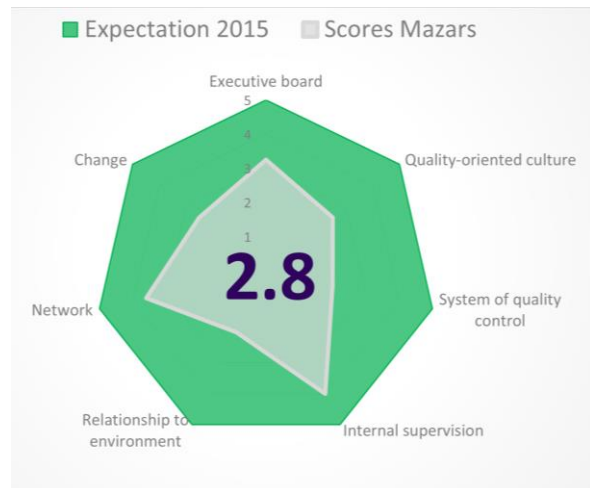


- obtaining insight into:
 - the causes that positively and negatively affect the quality of statutory audits;
 - the current organisational culture;
- development of the organisation being in control with respect to both scope and the monitoring apparatus;
- defining the details of the change vision (who, what and how);
- the determination of what the organisation expects of its executive board with respect to diversity, time, knowledge and experience and authority as appropriate to the organisation;
- practical details of how the executive board expresses the quality-oriented culture with its tone at the top and acting as an example;
- development of the quality-oriented vision and culture with respect to the actual desired behaviour of employees and the related policy with respect to evaluation, remuneration, promotion and sanctions;
- getting into line with the measures formulated in the report 'In the Public Interest' regarding the powers of the SB;
- establishing the details of the independence requirements for the SB.

Scores Mazars

Mazars scores an average of 2.8 for the seven modules. In the opinion of the AFM, Mazars accordingly meets some of the expectations for 2015. The following items require the attention of Mazars:

- obtaining insight into:
 - the causes that positively and negatively affect the quality of statutory audits;
 - the current organisational culture;
- defining the details of the change vision (who, what and how);
- development of the quality-oriented vision and culture with respect to the actual desired behaviour of employees and the related policy with respect to evaluation, remuneration, promotion and sanctions;
- the determination of what the organisation expects of its executive board and SB with respect to diversity, time, knowledge and experience and authority as appropriate to the organisation.
- development of the organisation being in control with respect to both scope and the monitoring apparatus;
- practical details of how the executive board expresses the quality-oriented culture with its tone at the top and acting as an example;
- establishing the details of the connection between the training curriculum and the professional and other competences required of individual employees.



Scores Accon

Accon scores an average of 1.7 for the seven modules. In the opinion of the AFM, Accon accordingly does not meet the expectations for 2015. The following items require the attention of Accon:

- the formulation and development of:
 - a quality-oriented culture, among other things with respect to the actual desired behaviour of employees and the related policy



- with respect to evaluation, remuneration, promotion and sanctions;
 - a vision of change (who, what and how) with a clear target on the horizon;
- practical details of how the executive board expresses the quality-oriented culture with its tone at the top and acting as an example;
- the control of your organisation in relation to:
 - the setting up of a structured process of root cause analyses and cultural review;
 - development of the organisation's understanding of being in control and the monitoring apparatus for this purpose;
 - setting up a process for the development of knowledge tailored to individual employees;
- the determination of what the organisation expects of its executive board and SB with respect to diversity, time, knowledge and experience and authority as appropriate to the organisation.
- obtaining insight into the factors that limit and enhance quality related to operating in a network;
- developing the independence requirements for the SB.

2.5 Follow-up to this review

After publication of the generic report in October 2015, the AFM will continue its regular dialogue with the PIE audit firms regarding the further development of the change process and the improvement measures. In consultation with the PIE audit firms, the AFM will use a model whereby the AFM can give its feedback on the design of the change measures initiated by these organisations and offer the PIE audit firms the opportunity to inform the AFM with respect to further progress of the improvement measures on a regular basis. The AFM hopes to be able to establish in the first quarter of 2016 that the PIE audit firms have developed the design of all the elements of the dashboard modules reviewed in 2015.

Directly after, in 2016 the AFM will review the *operating effectiveness* of the measures that the PIE audit firms have implemented in *design*. Expectations will be formulated for each module based on the objectives of the module concerned. These expectations will serve as the basis for the scores in the dashboard for 2016. The AFM will again express the findings of that review in a dashboard with scores. The AFM will carry out a similar review in 2017 as well, and also present its report in dashboard form. If the AFM concludes that a PIE audit firm is achieving inadequate progress or vigorousness in the implementation of the improvements, the AFM will consider imposing formal enforcement measures to enforce the necessary degree of progress and vigour in both design and operating effectiveness.

Furthermore, in 2016 the AFM will start to carry out suitability checks of the relevant policymakers and co-policymakers at the PIE audit firms.⁸ The AFM will also consider the role of these persons in the formulation and implementation of the change processes and the implementation of improvement measures at the PIE audit firm.

2.6 Limitations of the review

The AFM considers it important to emphasise that while this review has been carried out with care, it is nevertheless subject to certain limitations.

- *Only design (policy) and not operating effectiveness (practice)*

The AFM's review this year exclusively concerns the *design* of the change and improvement measures of the PIE audit firms. The AFM has assessed whether in its opinion the vision, policy, the procedures and the descriptions of the audit firms have been designed adequately. The AFM has not reviewed the *operating effectiveness* and has therefore not established that the vision, policy, procedures and descriptions are observed in practice. In other words, if the AFM concludes that an audit firm meets the expectations for 2015, this does not mean that it has established that all the statutory audits performed by this audit firm are now of sufficient quality. The AFM will review the *operating effectiveness* of the change and improvement measures from 2016. The AFM will assess the quality of the statutory audits in its regular inspections that it will carry out from 2015 to 2017.

- *Change takes time*

Many improvement measures need time for the desired effect to be achieved in practice. For example, changing a corporate culture, redesigning the governance, changing the systems used for evaluation and remuneration and increasing the level of knowledge and competences of employees cannot be achieved easily or quickly. The AFM expects the PIE audit firms to show adequate progress and vigour in implementing changes, but it is aware that achieving permanent effects may take several years. Meanwhile, the AFM expects the PIE audit firms to make every effort, for instance in the form of temporary 'emergency' measures, to ensure the quality of their statutory audits in the short term.

⁸ The statutory provisions relating to suitability are included in the Audit Firms (Additional Measures) Act, the parliamentary bill for which has recently been subject to consultation (see <https://www.internetconsultatie.nl/aanvullendemaatregelen>). The final provisions and date of effectiveness of this Act were not yet known at the time of publication of this report.

- *More fundamental changes to the system may be needed*

In its report 'Results of the inspection of the quality of statutory audits at the Big 4 audit firms' of 25 September 2014, the AFM described the system within which statutory audits are performed. This system contains inherent incentives to place interests (such as commercial or personal interests) above the public interest. Safeguards are therefore needed to remove these incentives and to ensure that quality prevails at all times. The AFM is confident that the measures currently being introduced by the PIE audit firms will significantly contribute to this objective and that they will have a positive effect on the quality of statutory audits. If this positive effect fails to materialise over time, more drastic changes to the system may be needed.

- *Difference between the AFM dashboard and the NBA Public Interest Monitor*

The NBA has published the NBA Public Interest Monitor on its website www.accountant.nl/toekomst. The NBA Monitor shows the progress made in the implementation of the 53 measures listed in the report 'In the Public Interest'. For each audit firm and for the sector as a whole, the NBA Monitor states the percentage of the steps that should have been completed by now and the percentage of the steps in the overall change process.

There may be differences between the NBA Monitor and the AFM dashboard, since all the data in the NBA Monitor originate from self-assessment. The PIE audit firms themselves have indicated with a yes/no answer whether they have implemented all or part of a measure and described their status with respect to the change process. The NBA does not perform substantive tests. The AFM did form a substantive opinion with respect to the way in which the measures from the report 'In the Public Interest' have been formulated. The AFM has accordingly assessed whether the measures, including all the identifiable elements within, have been implemented as formulated in the report 'In the Public Interest'. This means that the AFM has concluded, in case of an alternative implementation (possibly with the same effect) of the formulated measure, that the measure has not been implemented as formulated in the report 'In the Public Interest'. In

such cases this means that the conclusions of the AFM differ from what is stated in the NBA Monitor.⁹

- *Only PIE audit firms reviewed*

The AFM intends that all audit firms should implement measures for improvements. The AFM's review this year exclusively concerns the change and future-oriented improvement measures of PIE audit firms that perform statutory audits. Non-PIE audit firms were not involved in this review. Previous reviews by the AFM indicate that the non-PIE audit firms also need to take fundamental measures in order to bring the quality of their audits up to standard.¹⁰ It may be expected that the Accountancy Monitoring Committee will also consider the improvement measures in the wider segment, including the non-PIE audit firms.

⁹ For example: Measure 5.5 states that the improvement plan stated in the measure must be implemented for *two* years, and that after these two years an evaluation has to be made to determine whether the audit partner can continue to be an authorised signatory. Some audit firms have decided when implementing this measure in their organisation that the improvement plan will remain in force for *one* year, and that evaluation and a decision regarding continuation as an authorised signatory will be made after one year. If it is decided after one year that the auditor is no longer satisfactory and cannot continue as an authorised signatory, it could be argued that this is a 'stricter' approach than using the two-year term stated in measure 5.5. On the other hand, if it is decided after one year that the quality of the auditor's audits is satisfactory and that this auditor no longer needs to be guided and monitored intensively by the audit firm, the term of one year would appear to be less 'strict' than the term of two years. Due to the uncertainty regarding the effect of this alternative implementation (one year instead of two), the AFM has assessed this alternative implementation as being not in accordance with the formulated measure.

¹⁰ See the reports 'Thematic review of non-PIE audit firms: Part 1 – NBA firms' of 11 July 2013 and 'Thematic review of non-PIE audit firms: Part 2 – SRA firms' of 26 November 2013.

3. Note per module

Table 5 shows the total dashboard scores for each PIE audit firm in 2015. A weighted average score per module is calculated on the basis of the scores the AFM assigned for each module element. The total score for each PIE audit firm is calculated as the average of the scores at module level, with the modules Relationship of the audit firm to its environment (module 5) and Network (module 6) being assigned half the weight of the other modules due to their exploratory nature. Table 5 also shows the average score for all nine PIE audit firms.

Table 5. Total dashboard scores 2015

Total	Score
KPMG Accountants N.V.	4.6
Ernst & Young Accountants LLP	4.1
Deloitte Accountants B.V.	4.0
PricewaterhouseCoopers Accountants N.V.	4.0
BDO Audit & Assurance B.V.	3.5
Grant Thornton Accountants en Adviseurs B.V.	3.0
Baker Tilly Berk N.V.	2.9
Mazars Paardekooper Hoffman Accountants N.V.	2.8
Accon avm controlepraktijk B.V.	1.7
Average	3.4

The scores per module are explained in paragraphs 3.1 to 3.7. Each paragraph begins with a brief description of the subject to which the module relates and states the expectation for 2015. The scores for the various modules are then listed and explained. Various modules include descriptions of what are known as good practices: practical examples of specific PIE audit firms that in the opinion of the AFM have formulated their vision, policy, procedures or descriptions in such a way as to fully represent the expectations for 2015. These examples show how audit firms can represent the subjects concerned. Alternative interpretations that are appropriate to the specific features of the audit firm in question are of course also possible. The appendix to this report contains the score tables and the objective for the module used by the AFM in the allocation of the scores.

3.1 Module 1: Executive board

The executive board exercises significant influence over the quality of statutory audits, since the executive board leads the organisation on the basis of its vision and mission and the associated quality objectives. In line with these objectives, the executive board establishes the system of quality control and monitoring, expresses this and monitors this so that the quality of the statutory audits is ensured.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of this module. Table 6 shows the average scores for this module for each PIE audit firm.

Table 6. Scores for module 1 Executive board

Executive board	Score
KPMG Accountants N.V.	4.7
Deloitte Accountants B.V.	4.3
BDO Audit & Assurance B.V.	3.9
Ernst & Young Accountants LLP	3.9
PricewaterhouseCoopers Accountants N.V.	3.9
Mazars Paardekooper Hoffman Accountants N.V.	3.3
Baker Tilly Berk N.V.	2.9
Grant Thornton Accountants en Adviseurs B.V.	2.6
Accon avm controlepraktijk B.V.	1.7
Average	3.4

* The system used to determine the scores is described in section 5.4. This system gives an average score for the module Executive board of 3.4388[.]. The average module score is therefore not calculated on the basis of the nine scores shown here, which are rounded to one decimal place.

Substantiation of the scores

In the module 'Executive board', the AFM assessed four elements:

1. the way in which audit firms have produced a quality-oriented vision and the description of how they intend to achieve the goals described in their vision;
2. how audit firms understand the meaning of being 'in control' and how they establish that they are in control;
3. the way in which the audit firms have interpreted the concepts of sufficient time, knowledge and experience of the executive board, diversity of the composition of the board and sufficient authority that the board can provide effective leadership;

4. the way in which the audit firms have interpreted the concept of an effective tone at the top with respect to a quality-oriented culture.

A quality-oriented vision

The executive board's vision with respect to quality significantly influences the quality of statutory audits, since the executive board leads the organisation on the basis of its vision and mission and the associated quality objectives. The AFM therefore expects audit firms to have a vision that besides complying with legislation and regulations also focuses on other aspects of quality relevant to the audit firm in question. The AFM also expects audit firms to have developed a practical representation of their understanding of quality, how they intend to achieve this and how this should be represented in the behaviour of their employees and the culture of the organisation.

We note that the extent to which audit firms are in a position to develop their practical vision of quality varies. In its vision, KPMG has clearly stated its understanding of quality, the behaviour of its employees that is appropriate to this and a clear plan of how it intends to achieve the objectives it has formulated. The other audit firms are having difficulty with this: they restrict themselves to a general statement that quality is an important value for an audit firm, or a too general description of appropriate behaviour of their employees. While these audit firms have an action plan for how they will achieve the desired level of quality, these plans need to be developed further with respect to the explanation of what quality means. The AFM further notes that the majority of the audit firms, with the exception of Accon and GT, have defined and explained other relevant quality objectives in their visions in addition to compliance with legislation and regulation.

Good practice – KPMG

KPMG has not only developed its vision of quality to include objectives and an approach to change, it has also taken steps to make it clear to employees what constitutes desirable behaviour that is appropriate to this vision. KPMG focuses not only on individuals, cooperation with the organisation is also encouraged. By means of dilemma sessions, KPMG aims to engage its employees in the development of the concept that quality goes beyond accuracy of figures and the law. The main point is that there is no one single correct answer, that an auditor's work goes further than simply going through checklists, and that the formation of a professional opinion is required. The sessions give employees the opportunity to describe situations they have encountered and the dilemmas that these raised. The dilemmas are then discussed. KPMG has thus initiated a process whereby it demonstrates as an organisation how quality objectives apply in practice in consultation with its employees.

In control

Monitoring whether quality objectives are achieved is part of the effective management of an audit firm. This requires insight into the extent to which the audit firm is in control with respect to its formulated quality objectives. The AFM accordingly expects audit firms to have independently determined how they define the concept of being in control of their organisation and that for an audit firm, being in control involves more than meeting statutory and regulatory requirements. The AFM also expects audit firms to have developed a framework and reporting structure whereby it can establish that it is in control or that additional direction is needed.

The AFM notes that Deloitte has formed an understanding of what being in control means when it comes to quality objectives and has formulated a framework whereby it can effectively monitor whether it is in control. EY and KPMG are still working on the structure of this framework with a clear reporting structure whereby insight will be obtained regarding the extent to which the organisation is achieving its quality objectives at all relevant levels on a regular basis. The AFM notes that Accon, BDO, BTB, GT and Mazars have included no or very limited reference in their descriptions of being in control to quality objectives relevant to the organisation apart from legislation and regulations, and that their executive boards are in most cases only informed by means of qualitative reporting once or a few times per year.

In the cases of Accon, BDO, BTB, GT, Mazars and PwC, the AFM notes that being in control and the monitoring conducted focuses on particular aspects of quality that do not correspond directly to the quality objectives.

Good practice – Deloitte

Deloitte has a broad vision of being in control that includes embedding the quality of statutory audits in the broader public interest. The embedding of quality is achieved through the use of personal 'Audit Quality Commitments': actual quality agreements that are signed by both the individual auditor and the audit firm that give clear direction without becoming a rigid (or too rigid) key performance indicator. Deloitte has listed the key action items for achieving a quality-oriented culture in an 'Audit Quality Plan'. The executive board is informed monthly on the progress of the 'Audit Quality Plan', by means of what is known as a 'board package'. This reporting describes the progress of the process and the findings, for instance of the 'practice reviews' and the subsequent root cause analyses. Work is also in progress on a 'Quality Performance Dashboard' that will focus (even more) on substance. These reports enable the Deloitte board to obtain insight into the extent to which the organisation is meeting its quality and other objectives and rules and thereby the extent to which it is in control.

Arrangements for the executive board

Sufficient time is required to perform the role of a member of the executive board effectively. Members also need to have specific knowledge and experience of the organisation in order to provide effective direction. Moreover, the board and its members need to have a sufficiently diverse composition and authority in order to exercise their duties effectively. In the report 'In the Public Interest', the sector has also mentioned these elements in the profile description for the executive board. The AFM recognises the importance of these elements for the effectiveness of the board, and expects these elements to form part of the suitability test in future legislation.

The AFM has established that BDO, Deloitte, EY and KPMG have reflected the elements of time, knowledge and experience and authority, and taken account of the specific features of the audit firm, such as its size, the sectors in which its clients operate and the nature of its clients. Accon, BTB, Deloitte, GT, Mazars and PwC have not yet sufficiently developed the diversity of composition in their profiles. In addition, we note with respect to Accon, BTB, GT, Mazars and PwC that while their profile descriptions or similar documents mention the above-stated terms, their descriptions are cursory. For example, there is simply a statement that a member of the executive board must have sufficient time for his duties as a board member, however there is no statement of what this means in terms of actual time spent.

Role of the executive board

The tone at the top and the conduct of the executive board is an important determining factor in the realisation of the desired quality-oriented culture. With its tone at the top and its behaviour, the board displays the quality-oriented culture. The AFM recognises the importance of these elements in the achievement of the desired quality-oriented culture, as well as the regular evaluation of whether the tone at the top and the behaviour of the board is having the desired effect.

The AFM has established that KPMG has developed a practical vision of how it wishes to set an example with its tone at the top and its behaviour, and has developed a methodology for regular evaluation of whether it is doing this effectively. BDO, Deloitte, EY and PwC have developed a description of how their boards express a quality-oriented culture with the tone at the top, but they do not give practical examples of what kind of exemplary behaviour is associated with this and they have not developed any means of establishing whether the tone at the top and the behaviour of the board are making an effective contribution to the realisation of a quality-oriented culture. The AFM has moreover established that Accon, BTB, GT and Mazars have not yet developed an adequate practical description of their tone at the top and exemplary behaviour.

Good practice – KPMG

KPMG has recognised the importance of the proper tone at the top (among its partners/directors) and has formulated policy and principles in this respect. This involves exemplary behaviour as well as the right tone and message. Partners and directors (and therefore also the executive board) are seen as the cultural standard-bearers who should lead the way in strongly expressing the desired culture in order to encourage a change in behaviour by the rest of the organisation. With these cultural standard-bearers, KPMG shows what it understands by the desired tone and behaviour at the top. Partners and directors are asked to name three types of behaviour that they aim to improve in the first 100 days of the programme.

Finally, KPMG monitors the tone at the top (in both statements and behaviour) through intensive feedback. This gives KPMG insight into the current tone at the top, which forms the basis for the further development of desired behaviour in the organisation.

3.2 Module 2: Quality-oriented culture

The culture of an organisation affects what people consider to be important or what people believe is considered to be important. The culture therefore significantly determines how people behave. Put another way, events and the importance attached to events affect the culture of an organisation. The AFM expects that the effectiveness of the measures designed to improve and ensure quality will depend largely on the extent to which audit firms are able to create a quality-oriented culture, where necessary accelerating the changes to their culture and continuing to devote attention to this matter.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of this module. Table 7 shows the average scores for this module for each PIE audit firm.

Table 7. Scores for module 2 Quality-oriented culture

Quality-oriented culture	Score
KPMG Accountants N.V.	4.7
Ernst & Young Accountants LLP	4.3
PricewaterhouseCoopers Accountants N.V.	3.8
BDO Audit & Assurance B.V.	3.1
Deloitte Accountants B.V.	3.1
Grant Thornton Accountants en Adviseurs B.V.	2.7
Baker Tilly Berk N.V.	2.5
Mazars Paardekooper Hoffman Accountants N.V.	2.5
Accon avm controlepraktijk B.V.	1.3
Average	3.1

Substantiation of the scores

In the module ‘quality-oriented culture’, the AFM assessed three elements:

1. the development of a quality-oriented culture by the audit firms;
2. the implementation of culture reviews focusing on a quality-oriented culture;
3. the contribution of the policy on evaluation, remuneration, promotion and sanctions to the quality-oriented culture of the audit firm.

The quality-oriented culture

In its report ‘In the Public Interest’, the Future of the Auditing Profession working group mentions and explains the influence of culture on the behaviour of employees with various statements, including: “Making this culture visible helps employees to choose the correct behaviour. Behaviour is influenced by signs employees think they have been given with respect to what is really appreciated within an organisation or audit team. Through its tone at the top, the executive board has a key role in visibly stating and expressing the desired culture.” The working group considers a change of culture to be needed in order to bring about a real change in the way that auditors behave.

The AFM recognises the great degree of influence that the culture of an audit firm has on the behaviour of its employees. Put another way, events and the importance attached to events affect the culture of an organisation. The AFM also recognises the need for a change of culture in order to achieve a consistent and permanent improvement in the quality of the audits. For this reason, the AFM considers it important that the audit firms have a vision of the quality-oriented culture that they aim to achieve, whereby the tone at the top reflects this quality-oriented vision and the core values of the organisation. The AFM takes the view, as does the working group, that in the interests of continuous quality and quality improvement, that learning from mistakes and cooperation within teams are essential elements of a quality-oriented culture. The AFM also

considers it important in this culture that the organisation strives to achieve higher standards than simply meeting the statutory and regulatory requirements.

KPMG, PwC, EY and BDO have specifically described their quality-oriented culture in individual behaviour characteristics that reflect the vision of the organisation and that are expressed by the organisation's senior management. The AFM notes that all audit firms, with the exception of KPMG, are having difficulty in describing the desired behaviour of employees collectively at organisation level when it comes to cooperation, the ability to learn and the connection with the quality-oriented vision so that a widely supported impression of what constitutes desirable behaviour exists throughout the organisation. Accon, BTB, GT and Mazars do not go further than stating general conduct principles that are important for a quality-oriented culture, however they do not elaborate what a quality-oriented culture means with respect to matters such as cooperation within audit teams and the ability to learn. In their descriptions of desirable behaviour, BTB and GT focus only on compliance with legislation and regulation and have not stated any higher quality standard in their descriptions of desirable behaviour focusing on the public interest. If behavioural characteristics are not described in detail, it will still be the case that statutory auditors and employees will not have certainty regarding what exactly is expected of them. There is then the risk that they will make their own interpretations, and do something differently than originally intended, or – as long as they are still uncertain – they will continue to act as they have always done.

Culture review

The AFM considers it important that audit firms have insight into the extent to which the culture in their organisation is currently a quality-oriented culture, so that they can monitor that the cultural change is going in the desired direction and adjust the course the audit firm is taking if necessary.

The AFM notes that Accon, BDO, BTB, Deloitte, GT and Mazars all have a limited vision with respect to the purpose and scope of a culture review and have not yet sufficiently considered the methodology necessary for carrying out a culture review. The AFM does not consider a review whereby culture is measured only by questionnaires to constitute an adequate culture review. The AFM considers it important that a culture review should involve all the relevant layers of the organisation and that the questions and methodology used are specifically designed to measure culture. The AFM also considers a plan for how this measurement is made firm-specific and how the culture measurement can be translated into an approach to change to be an important aspect of a culture review. While employee satisfaction surveys include matters relating to a quality-oriented culture, these do not give a full picture of behaviour that either hinders or encourages a quality-oriented culture. The AFM's view is that these surveys primarily have a different purpose and in terms of methodology (questionnaires only) they are too one-sided to qualify as culture reviews. EY, KPMG and PwC have adopted an approach whereby they use culture reviews as part of their approach to change. EY and KPMG use a methodology that the AFM considers to be suitable for carrying out proper culture reviews.

Good practice – EY

EY distinguishes two types of specific measurements of culture; firstly, measurements of culture to support optimal influence over behaviour and secondly, measurements of culture designed to obtain insight with respect to a specific signal or problem. Signals and issues are assessed from a behavioural and cultural perspective on their own merits. Various tools are used for this, including the use of external experts where necessary, and the questions asked are adjusted depending on the specific problem concerned. EY thus has a methodology that helps it achieve a culture that actually contributes to the realisation of its quality-oriented vision in practice.

Contribution of the policy on evaluation, remuneration, promotion and sanctions to the quality-oriented culture of the audit firm.

As recognised by the working group in its report 'In the Public Interest', the AFM also recognises that the focus in the policy on evaluation and remuneration should be on positively encouraging, appreciating and rewarding desirable behaviour. It is important that lessons are learned from mistakes in order to hopefully prevent mistakes in future and to encourage a culture in which such lessons are thoroughly learned. In this respect, it is important that the sanctions policy is not restricted to punishing quality problems, but that in line with the evaluation and remuneration policy it contributes to changing inappropriate behaviour. The AFM considers it important that audit firms find a good balance between sanctions and positive rewarding of desirable behaviour, so that employees feel sufficiently free to express themselves and dare to make mistakes. The policy on promotion is also a visible expression whereby a signal is given to employees of what the organisation considers to be 'really' important. In agreement with the working group, the AFM is of the opinion that quality should be a decisive factor for promotion.

The degree to which quality has a decisive role in the policy on evaluation, remuneration, promotion and sanctions varies. The AFM is of the opinion that BDO, Deloitte and KPMG have adequately and consistently recognised the importance of quality in their policy, thus providing a signal to employees that can contribute to the achievement of the desired quality-oriented culture. The AFM notes that a sanctions policy that includes the right incentives to promote a quality-oriented culture is an item of attention for some audit firms. The AFM is of the opinion that the sanctions policy as formulated at BTB, EY and PwC does not yet reflect the aims of a learning organisation in all relevant aspects. The AFM questions whether the present policy sufficiently provides a good incentive for change that will lead to the desired quality-oriented culture. With regard to Accon, BTB, GT, Mazars and PwC, the AFM considers that these firms have not devoted sufficient attention to the meaning of quality in elements of their policies on evaluation, remuneration, promotion and sanctions, and therefore that they do not devote sufficient attention to the effect these factors have on the culture of the organisation.

Good practice – Deloitte

The aspect of quality is adequately and consistently included in the policy on evaluation, remuneration and promotion. Together with the sanctions policy, the policy can thereby contribute to the quality-oriented culture of the organisation. The score for quality is an important element in the evaluation of employees. The organisation rewards positive examples of quality and includes this aspect in its allocation of variable remuneration, so that a bonus can be awarded on the basis of exceptional positive quality performance. 'Quality Awards' are also given to employees who perform well. Furthermore, quality aspects such as professional expertise and high-quality work form an important element of the policy on promotion. For example, the policy on the appointment of directors includes aspects such as 'Audit Quality Indicators' and 'Acting in the public interest' as well as expertise and an attitude of professional scepticism.

3.3 Module 3: System of quality control and monitoring

The system of quality control consists of procedures, descriptions and standards that are designed to ensure that the audit firm complies with the applicable rules. The system of quality control therefore contributes to the quality of statutory audits.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of this module. Table 8 shows the average scores for this module for each PIE audit firm.

Table 8. Scores for module 3 System of quality control and monitoring

System of quality control and monitoring		Score
KPMG Accountants N.V.		4.5
Deloitte Accountants B.V.		4.0
PricewaterhouseCoopers Accountants N.V.		4.0
BDO Audit & Assurance B.V.		3.5
Ernst & Young Accountants LLP		3.5
Grant Thornton Accountants en Adviseurs B.V.		3.5
Baker Tilly Berk N.V.		3.0
Mazars Paardekooper Hoffman Accountants N.V.		2.0
Accon avm controlepraktijk B.V.		1.5
Average		3.3

Substantiation of the scores

The AFM assessed two elements in the module 'System of quality control and monitoring':

1. how the PIE audit firms ensure that the knowledge and competences of their auditors and other employees is kept up to standard; and
2. how the PIE audit firms have systematically embedded the conduct of root cause analyses in their procedures.

Knowledge

As stated in the report 'In the Public Interest', quality should be part of the mind-set of every individual, every organisation and the profession as a whole. Besides an independent attitude, quality is to a significant extent determined by competences: the knowledge and skills of the auditors and other employees of the audit firm.

To keep the knowledge and skills of auditors and other employees up to standard, it is important that audit firms in the first place determine what level of knowledge and skills is desirable. Besides being aware of and complying with legislation and regulation, there are also competences that are important in relation to other elements of quality, such as the public interest, an attitude of professional scepticism and cooperative skills. An audit firm then obtains insight into the actual level of knowledge and skills of its auditors and other employees on the basis of information from various sources (for example, internal quality reviews). With this insight, the audit firm can prepare a training and development plan to supplement, update or increase the knowledge and skills of auditors and other employees where necessary. Since individual training and development needs may vary and because it is important that the knowledge and skills of all auditors and employees are and remain up to standard, all these elements need to be elaborated both collectively (for instance for each job level) and individually.

In the opinion of the AFM, EY has a training and development programme in which all these activities are included at both collective and individual level. Nearly all the audit firms, with the exception of Accon and Mazars, have themselves determined the desired level of knowledge and skills of their auditors and other employees. In determining this desired level, these audit firms have devoted particular attention to other elements of quality and have not restricted themselves to the necessary knowledge of and ability to comply with legislation and regulation. BDO, BTB, Deloitte, EY, KPMG and PwC have an apparatus in place for obtaining insight in the level of knowledge and skills of their auditors and other employees. With the exception of EY however, for most firms this insight applies only to the collective or job level. The AFM thinks that obtaining insight into the level of individual auditors and employees is also needed. At BTB and GT, there is no clear connection between the insight obtained regarding available knowledge and skills (the training requirements) and the training and development plan (the training offered). In the opinion of the AFM, Accon and Mazars do not obtain sufficient insight regarding the available knowledge and skills and therefore do not have any training and development plan that is based on such insight.

Good practice – EY

EY has developed a personalised learning procedure offering extensive training possibilities for each of its employees. This audit firm has a methodology that uses various sources of information in order to obtain insight into the level of competence of each of its employees. Based on this insight, an ambitious, extensive and detailed multi-year learning and development plan is prepared in consultation with the employee. In addition to required and necessary professional training courses, this includes other elements of quality, such as giving central priority to the public interest. There is a clearly visible connection between the training offered and the collective and individual training requirements.

Root cause analysis

The report 'In the Public Interest' recognises the importance of a continually learning profession for continuous quality and quality improvement. The report states measures that should ensure that the profession takes a much more active attitude to learning from its successes and failings. For individual audit firms, the AFM considers it important that they see the conduct of root cause analyses as a continuous activity and not only as a one-off event. Embedding the conduct of root cause analyses in the system of quality control and monitoring is an important safeguard in this respect. The AFM has assessed whether a process has been implemented for the conduct of root cause analyses on the basis of various signals (for example in addition to internal and external reviews, also consultations and possibly additional sources) and designed for both individual statutory auditors and aspects concerning the organisation as a whole. To be able to learn from both failures and successes, it is important that audit firms include both statutory audits of adequate and inadequate quality in their root cause analyses. The systematic embedding of the conduct of root cause analyses is shown for instance by the existence of a practical description of who conducts the root cause analyses and the methods that they use. This requires both expertise and acceptance of the person conducting the root cause analyses, as well as practical tools (apparatus and methodologies).

In the opinion of the AFM, KPMG has systematically embedded the conduct of root cause analyses in its procedures so that all the above elements are present in the design. At Deloitte and PwC, the inclusion of organisation-wide aspects in the root cause analyses still need to be explicitly embedded in the system of quality control. BDO, BTB and GT are still engaged in developing a methodology and practical tools for the conduct of root cause analyses. The inclusion of various sources and signals in these root cause analyses and the expertise of the person who conducts them requires particular attention. The AFM has concluded that the conduct of root cause analyses at Accon is not yet systematically embedded in its procedures, and that further progress in this respect is also needed at EY and Mazars.

Good practice – KPMG

KPMG has formed a separate committee for the conduct of in-depth root cause analyses, known as the Audit Quality Council. This Council has a methodology and apparatus at its disposal that enables it to analyse factors affecting quality either positively or negatively from a broad perspective (not only at the level of the individual statutory auditor but also across the organisation) and also in depth (taking account of various issues and 'layers' in the organisation). With the formation of the Audit Quality Council, KPMG has a body that can follow up and monitor improvement measures and other quality initiatives arising from the root cause analyses objectively and with sufficient authority.

3.4 Module 4: Internal supervision

The duties of an internal supervisory body include keeping the executive board of the audit firm focused on meeting the expectations of the public with regard to delivering statutory audits of good quality and thereby contributes to safeguarding this level of quality.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of this module. Table 9 shows the average scores for this module for each PIE audit firm.

Table 9. Scores for module 4 Internal supervision

Internal supervision	Score
Ernst & Young Accountants LLP	5.0
KPMG Accountants N.V.	5.0
PricewaterhouseCoopers Accountants N.V.	5.0
Deloitte Accountants B.V.	4.8
BDO Audit & Assurance B.V.	4.4
Mazars Paardekooper Hoffman Accountants N.V.	4.0
Baker Tilly Berk N.V.	3.8
Grant Thornton Accountants en Adviseurs B.V.	3.8
Accon avm controlepraktijk B.V.	2.4
Average	4.2

Substantiation of the scores

In the module 'Internal supervision', the AFM assessed three elements:

1. the powers of the internal supervisory body;
2. how the audit firms have reflected the concepts of authority, time, knowledge and experience of the internal supervisory body; and
3. the safeguards with respect to the independence of the internal supervisory body.

Powers of the internal supervisory body

To be able to perform effective supervision of the activities of the executive board, an internal supervisory body must have adequate powers. In its report 'In the Public Interest', the Future of the Auditing Profession working group listed the following powers that it considers to be necessary for an internal supervisory body at a PIE audit firm:

- making a binding nomination for the appointment of members of the executive board of the Dutch principal holding company that can only be overturned by the shareholders with a qualified majority;¹¹
- approval of the appointment and dismissal of partners in the audit practice;
- approval of the quality policy and safeguards;
- approval of the remuneration policy for executive board members, partners and employees and determination of the remuneration for the board members of the Dutch principal holding company;
- approval of the appointment and evaluation of the compliance officer;
- the power to demand any information from the executive board, the statutory auditor, other officers of the firm and external advisers that the SB needs in order to properly exercise its duties as a supervisory body.

The AFM acknowledges the importance of allocating all the powers that an internal supervisory body needs to exercise its duties and expects that further legislation will provide for the allocation of these powers. At the time of the initiation of the review, the future legislation on this point was not yet in the public domain. In its review in 2015, the AFM accordingly focused on the powers as listed in the report 'In the Public Interest'.¹²

The powers stated above were previously in most cases reserved for the general meeting of shareholders (GMS) or partners, or the executive board of the audit firm. Most PIE audit firms have now transferred these powers to their internal supervisory body. The AFM has established

¹¹ In a letter to the House of Representatives dated 25 September 2014, the Minister of Finance wrote: "The supervisory board is responsible for the appointment and dismissal of members of the board of directors [...]". The consultation document for the parliamentary bill for the Audit Firms (Additional Measures) Act of 7 July 2015 includes a provision to the same effect. It is now expected that the legislation will be more stringent on this point than the measure in the report 'In the Public Interest' reviewed here and that the powers allocated to the internal supervisory body still have to be more strictly defined.

¹² If future legislation is different in this respect, this will of course take precedence over the measures stated in the report 'In the Public Interest' and the AFM will include the new statutory provisions in its subsequent reviews.

that Deloitte, EY, GT, KPMG, Mazars and PwC have described all the above powers in detail and specifically to their own organisation in regulations or articles of association (or drafts thereof) and have allocated these powers to their internal supervisory body. Accon has included the above powers in draft regulations, but has not yet defined them sufficiently specifically for its own organisation. BDO has made a conscious choice to formulate one of the powers in a different way. BTB is still considering how some of these powers can be transferred from the GMS to its internal supervisory body.

Authority, time, knowledge and experience of the internal supervisory body

An internal supervisory body needs sufficient time in order to fulfil its role effectively. Its members also need to have adequate specific knowledge and experience of the organisation in order to exercise their supervisory duties effectively. Lastly, its members must have sufficient authority to be able to intervene effectively when necessary. The report 'In the Public Interest' states that these elements among others should be included in the profile description for the SB to be prepared by audit firms. The AFM has assessed whether the PIE audit firms have elaborated these elements in sufficient detail and sufficiently specifically for their own organisation.

Based on profile descriptions, regulations and other documentation, the AFM has established that BDO, BTB, Deloitte, EY, KPMG and PwC have made a detailed and firm-specific provision for the time, knowledge, experience and authority of the supervisory body. They have accordingly quantified the expected time requirement for the SB, for instance for each individual SB member, depending on their role within the SB. They have also produced a description specific to their own organisation of the knowledge and experience and degree of authority that the supervisory board must have. In their profile description and regulations, GT and Mazars have determined that their internal supervisory body must have sufficient time, knowledge, experience and authority, but in the opinion of the AFM, a more detailed and firm-specific definition of these terms is required. Lastly, Accon has as yet not formulated a profile description, nor has it provided for the issues of sufficient time, knowledge, experience and authority in another way.

Independence of the internal supervisory body

The members of the SB must be independent in order for the SB to fulfil its role objectively. In the report 'In the Public Interest', the working group cited this as an element in the profile description for the SB. The AFM endorses this expectation from the public and expects an audit firm to have determined specific rules for its SB with respect to independence with regard to both its audit clients and the audit firm itself. The AFM accordingly considers it necessary that an audit firm has developed policy suitable for its organisation in line with the Code for independence with respect to the audit firm and in line with the Regulation on the independence of auditors in assurance engagements (ViO) for independence with respect to audit clients. The policy consists of all the various potential interests and relationships (including matters such as the receipt of gifts and hospitality, financial interests, business relationships, employment relationships, close personal relationships and legal proceedings).

The degree to which the audit firms have defined independence rules specific to the SB varies. The AFM has established that EY, KPMG and PwC have established a specific policy for independence with respect to audit clients and the audit firm. Nearly all the audit firms, apart

from Accon, have defined independence rules for their SBs with respect to the audit firm in line with the Code. With respect to the independence of their SB towards audit clients, BTB and GT refer to the ViO. BDO, Deloitte and Mazars have additionally defined firm-specific rules for other potential interests and relationships. Since most of the independence rules in the ViO only apply to auditors conducting assurance engagements and do not apply to members of the internal supervisory body, a statement that 'SB members must comply with the ViO' is not sufficient. This indeed means that firm-specific rules for SB members have not been defined for various potential interests and relationships.

Good practice – PwC

In its Regulations for the SB, PwC has safeguarded the independence of its supervisory board members with respect to the audit firm by including the independence requirements in the Code. To ensure that its supervisory board members are also independent with respect to the audit clients of PwC, an overview has been prepared with independence rules to which the SB members must comply. The independence rules for the SB members correspond to those in the ViO and the relevant international independence rules.

3.5 Module 5: Relationship of the audit firm to its environment

When conducting a statutory audit, the auditor has a relationship with various parties outside his own organisation: 1) the client, 2) the company to which the financial reporting relates and 3) the users of the auditor's opinion.

The fact that the auditor is paid by the company that he audits and that he has an information advantage in relation to the quality of his work can lead to a situation in which the auditor gives central priority to the interests of his audit client or his own interest, rather than the public interest of an audit that is conducted with good quality. By being transparent regarding the audits that they perform and any irregularities that they encounter, audit firms and auditors give insight to the users of financial statements with respect to the quality of the audits they have performed.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to this module. Table 10 shows the average score for this module for each PIE audit firm.

Table 10. Scores for module 5 Relationship of the audit firm with its environment

Relationship of the audit firm with its environment		Score
Ernst & Young Accountants LLP		5.0
PricewaterhouseCoopers Accountants N.V.		5.0
Deloitte Accountants B.V.		4.0
KPMG Accountants N.V.		4.0
BDO Audit & Assurance B.V.		3.0
Grant Thornton Accountants en Adviseurs B.V.		3.0
Accon avm controlepraktijk B.V.		2.0
Baker Tilly Berk N.V.		2.0
Mazars Paardekooper Hoffman Accountants N.V.		2.0
Average		3.3

Substantiation of the score

An audit firm is part of society and with its statutory audits, it plays an important part in creating transparency for both its audit clients and the users of financial statements. It is difficult for users of financial statements to assess the quality of the audit. The transparency of audit firms and the audits they conduct increase the insight of the users of financial statements with respect to quality. Statutory rules for transparency that have led to the extended auditor's report that became mandatory for audits of PIEs with effect from the 2014 financial year, the communication with the GMS and the transparency report contribute to increased transparency for the users.

The AFM also considers it important that audit firms themselves develop policy in which they state to their relevant group of stakeholders what they wish to achieve with the transparency regarding the quality of their statutory audit for these stakeholders and include objectives for this.

The need for transparency regarding the quality of the audit is also recognised in the report 'In the Public Interest' by the Future of the Auditing Profession working group. The working group calls on audit firms to produce clear reporting on their objectives and results.

The AFM notes that a clear difference exists between the Big 4 firms and the other PIE audit firms regarding the extent to which this is an agenda item and a live issue for the organisation. The AFM sees that EY and PwC have developed their own policy in which the principles and objectives with respect to transparency are elaborated. On the basis of the information provided, the AFM notes that the other PIE audit firms address this issue only from the perspective of compliance with legislation and regulation.

The AFM acknowledges that all audit firms take a serious attitude to transparency with respect to the audit client. Apart from Mazars, all the PIE audit firms have visibly adopted a wider definition of the term 'stakeholder' and in addition to the audit client, they include a wide range of other actors in society as stakeholders to whom they wish to be transparent, such as: investors, politicians and supervisory board members.

To a greater or lesser extent, the PIE audit firms offer the auditors they employ practical tools with respect to transparency. These may include templates for the extended auditor's report and opinion, training and workshops for the appearance of the statutory auditor at the GMS.

The AFM has established that the Big 4 audit firms provide transparency on more issues to their relevant stakeholders than those required under legislation and regulation, for instance with respect to the findings of AFM reviews to potential and existing audit clients and the provision of key figures and measurements that give an impression of the quality of the audit procedures.

3.6 Module 6: Network

Audit firms are part of a network and within this network they work nationally and internationally together with other disciplines in a wide range of advisory services with respect to tax, financial matters, IT, organisational matters and in some cases legal matters.

Within this cooperation there may be agreements regarding growth and profit targets, profit sharing and investments that could affect how and the extent to which the audit firm is in a position to safeguard the quality of statutory audits and operate independently. In several cases, the networks of the audit firms extend beyond the Netherlands. How these firms operate in the Netherlands is affected to a greater or lesser extent by the international network, depending on the way in which the entities within each network work together. The international network may therefore affect the quality of the statutory audit and independence with respect to the audit client.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of this module. Table 11 shows the average scores for this module for each PIE audit firm.

Table 11. Scores for module 6 Network

Network	Score
Ernst & Young Accountants LLP	5.0
PricewaterhouseCoopers Accountants N.V.	5.0
KPMG Accountants N.V.	5.0
Deloitte Accountants B.V.	4.4
Baker Tilly Berk N.V.	4.0
Grant Thornton Accountants en Adviseurs B.V.	3.6
Mazars Paardekooper Hoffman Accountants N.V.	3.6
BDO Audit & Assurance B.V.	3.0
Accon avm controlepraktijk B.V.	2.0
Average	4.0

Substantiation of the score

In the module 'Network', the AFM assessed two elements:

1. the national network; and
2. the international network.

The national network

All PIE audit firms operate as part of a national network. Agreements made within the network can influence how and the extent to which the audit firm is able to ensure the quality of its statutory audits. As also described in the report 'In the Public Interest', the AFM considers it important that there is support throughout the organisation for the recognition that certain standards and values apply unanimously throughout the network. Insufficient compliance with the standards at one of the components of the network can have consequences for confidence in the entire organisation, including confidence in the audits. The AFM also considers it important that audit firms recognise that agreements with respect to growth and profit targets, profit sharing and investment in quality can also affect the quality of statutory audits. It is therefore important that audit firms have insight into the factors that enhance and hinder the quality of statutory audits that ensue from operation in a national network.

EY, KPMG and PwC have identified and analysed both positive and negative factors with respect to the quality of statutory audits that ensue from operation as part of a national network. In their detailed analysis of factors, BTB, Deloitte, EY, GT, KPMG, Mazars and PwC devoted attention to the influence of growth and profit targets, profit sharing and investment in quality and the effect of these factors on compliance with legislation and regulation. BDO has identified and analysed these factors to some extent and has devoted general attention to the effects of profit targets, profit sharing and investment in the national network on the quality of statutory audits. The AFM has assessed the identification and analysis of quality-enhancing and quality-limiting factors by Accon as inadequate.

International network

Almost all the PIE audit firms operate as part of an international network as well as in a national network. How these firms operate in the Netherlands is affected to a greater or lesser extent by the international network, depending on the way in which the entities within each network work together. The AFM takes the view that insight into where the network has a positive effect on the quality of statutory audits is important so that this can be optimally used, as is recognition of the factors that potentially have a limiting effect on the quality of statutory audits. In nearly all networks, the audit methodology and associated IT are developed internationally and subsequently implemented in the Netherlands. This is then supplemented to meet specific national legislation and regulation as necessary. The network can moreover facilitate the setting of additional quality safeguards (either mandatory or not) and the conduct of reviews within the affiliated member firms. There may also be an international strategy in which principles with respect to items such as growth targets or the 'one-service concept' are determined that have to be adopted by the member firms in their local strategies.

It is therefore important that audit firms determine the factors that enhance and hinder the quality of statutory audits that ensue from operation in an international network.

Deloitte, EY, KPMG and PwC have identified and analysed the factors that enhance and hinder quality. These firms have also devoted detailed attention to the positive and negative effects of the international network on the way they conduct their business in the Netherlands. BTB has devoted detailed attention to the positive effects, however it has not carried out a detailed analysis of the factors that hinder quality. BDO, GT and Mazars have identified both the factors that enhance quality and those that hinder quality to some extent. These firms have devoted general attention to the positive and negative effects of the international network on the way they conduct their business in the Netherlands. This element does not apply to Accon, since this firm is not part of an international network.

3.7 Module 7: Change

To ensure that a structural change actually takes place, it is important that audit firms first carry out a thorough and integral analysis of the deeper causes that either positively or negatively influence the quality of statutory audits. A root cause analysis shows what actually has to change.

This will enable audit firms to implement structural and integral change, thus ensuring the quality of their statutory audits.

Scores for the PIE audit firms

The AFM has assessed the information provided by the PIE audit firms and on this basis has assigned scores to the various elements of this module. Table 12 shows the average scores for this module for each PIE audit firm.

Table 12. Scores for module 7 Change

Change	Score
KPMG Accountants N.V.	4.0
Deloitte Accountants B.V.	3.5
BDO Audit & Assurance B.V.	3.0
Ernst & Young Accountants LLP	3.0
Mazars Paardekooper Hoffman Accountants N.V.	2.5
PricewaterhouseCoopers Accountants N.V.	2.5
Baker Tilly Berk N.V.	2.0
Grant Thornton Accountants en Adviseurs B.V.	2.0
Accon avm controlepraktijk B.V.	1.0
Average	2.6

Substantiation of the score

In the module 'Change', the AFM assessed two elements:

1. the integral root cause analysis conducted that underlies the vision of change;
2. the change envisaged and whether this can reasonably be expected to achieve the desired situation and whether the change vision describes what and who needs to change and how and when the changes need to be implemented.

Integral root cause analysis

The AFM considers that a thorough, integral analysis of the deeper causes positively or negatively affecting the quality of statutory audits is the basis of a successful change vision. As the basis of the envisaged change, this integral root cause analysis should at least focus on all the issues and layers involved in the change vision. These issues are: governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn. The layers are: the executive board, the statutory auditors and other employees, the internal supervision, the system of quality control, the network and the environment.

The Big 4 audit firms and BDO have carried out various root cause analyses in recent years. Accon, BTB, GT and Mazars have not carried out such analyses, or only to a very limited extent. The AFM

notes that the majority of the analyses carried out by the PIE audit firms focus exclusively on the causes that negatively affect the quality of audits. However, insight into the factors that positively affect quality could be used to improve the quality of audits. The AFM notes with respect to all audit firms that the analyses have been limited in their scope. Either the analysis focused only on a few levels in the organisation or a limited number of issues, or the analyses were not been carried out in sufficient depth. This could lead to a situation in which improvement initiatives are put in motion that do not contribute to improving quality, and also that causes are not addressed.

Change vision and approach

For change, an audit firm needs to have established the direction in which it wishes to change, and that the desired effects of the change have been clearly defined. In other words, what will be different when the destination has been reached? This concerns not only the harder aspects, such as policy, processes and structure, but also the behaviour and culture at an audit firm. The AFM certainly does not expect audit firms to use a blueprint for their approach to change, or that only one model will be followed. The AFM understands that each audit firm operates and changes in its own context. The AFM also sees differences in the vision and approaches chosen by the audit firms.

At BDO, BTB, Deloitte, EY, KPMG and Mazars, the AFM sees that there is a clearly stated destination. Accon, BTB, GT and PwC have not or not adequately defined the effects they wish to achieve with the change. The question for the AFM is then whether the firm's employees have a clear understanding of where the firm wants to be and whether the specific behaviour expected and who is expected to exhibit this behaviour has been sufficiently defined. Accon has not yet formulated a change plan.

Another relevant consideration is whether the chosen approach is appropriate to the direction in which the audit firm wishes to change. It is also important that balanced consideration is given to who and what needs to change, as well as how and when the change should be made. The AFM notes that almost all the audit firms, with the exception of KPMG, have not yet fully answered these questions, or that they have concentrated only on some of the questions. In other words, the AFM notes that not all the (above-mentioned) layers and issues have been considered in the chosen approach to change. This means there is a possibility that some layers and issues may be neglected in the change process.

Furthermore, the AFM has assessed whether the answers to all these questions correspond with each other, that they are consistent. Do the considerations and actions all originate from the same change philosophy? And do they reflect the direction in which the audit firm wishes to go? In the cases of Accon, BTB, GT, Mazars and PwC, this consistency is inadequate. The AFM therefore sees a risk that interventions may not have the desired effect and that they may even conflict with each other.

4. Note on measures from the report 'In the Public Interest'

This section consists of the results of the AFM's assessment of the implementation of the measures from the report 'In the Public Interest'. The AFM included in its review the 25 measures for which the initiative for introduction lies partly with the PIE audit firms. Section 4.1 lists the results in relation to implementation of the measures for which the NBA has formulated an expectation as of 1 May 2015. Section 4.2 lists the results relating to the further progress of implementation of the full measures.

The measures in the report 'In the Public Interest' are mostly very practical and rule based. To establish whether a PIE audit firm meets all the aspects and sub-aspects of these measures, the AFM asked for information on each of these aspects and sub-aspects. The AFM has assessed the substance of the information it received from the PIE audit firm and established whether the organisation meets the expectations formulated by the NBA on 1 May 2015 and furthermore whether the organisation has perhaps made further progress with the implementation of these measures. It may be the case that the AFM's conclusions vary from the self-assessment carried out by the organisation in its responses to the NBA Monitor in certain respects.

4.1 Measures with expectation by the NBA for 1 May 2015

The results for all PIE audit firms in relation to the implementation of the measures for which the NBA has formulated an expectation as of 1 May 2015 are shown in table 13. Cases in which the AFM considers that the PIE audit firm meets the NBA's expectation in all aspects for the measure concerned are marked with a plus sign (+). A minus sign (-) shows that the AFM considers that the PIE audit firm does not meet this expectation in all aspects for the measure concerned.

Table 13. Results for measures with expectation as of 1 May 2015 in the report 'In the Public Interest'

Overview of results for measures from the report 'In the Public Interest'									
Expectation for 1 May 2015	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Culture and behaviour									
1.3 - Employment market profile	+	+	+	+	+	+	+	+	+
1.4 - Culture assessment	+	-	+	-	+	+	+	-	+
Governance									
2.2 - Profile description SB	-	+	-	-	+	+	+	-	+
2.3 - Description of duties of SB	-	-	-	-	+	+	+	-	+
2.4 - In AFM request linked to measure 2.3. Not separately evaluated.									
Evaluation and remuneration									
3.1 - Remuneration policy audit partners and employees	-	+	+	+	+	-	+	+	+
3.2 - Promotion policy	-	+	+	+	+	-	+	+	+
3.4 - In AFM request linked to measure 3.1. Not separately evaluated.									
3.5 - Claw-back scheme	+	-	+	+	+	-	+	-	+
3.6 - Investment policy	-	+	+	+	+	+	+	+	+
Quality measurement and improvement									
5.1 - Quality indicators	-	+	+	+	+	+	+	+	+
5.2 - Reporting of procedure and time	-	-	-	+	+	+	+	-	+
5.3 - EQCR	+	+	-	+	+	+	+	+	-
5.5 - Improvement plan audit partner	-	+	+	-	-	-	+	-	+

4.1.1 Culture and behaviour

Table 14. Results for measures relating to 'culture and behaviour'

Overview of results for measures from the report 'In the Public Interest'									
Expectation for 1 May 2015	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Culture and behaviour									
1.3 - Employment market profile	+	+	+	+	+	+	+	+	+
1.4 - Culture assessment	+	-	+	-	+	+	+	-	+

NBA expectation for 1 May 2015

Through the Consultation Platform for Public Audit Firms ('OPAK'), the NBA has explained to the PIE audit firms its expectation as of 1 May 2015 with respect to the measures relating to the subject 'culture and behaviour'.

Measure 1.3 – Employment market profile

"The audit firm has demonstrably evaluated (on the basis of documentation) whether its communication to students and the employment market is in line with the desired culture. In other words, focus on quality, attitude of professional scepticism, accuracy, reliability, standing firm, socially engaged. It has been established whether changes are needed. If this is the case, the executive board of the audit firm has demonstrably issued instructions for the communication in question to be adjusted."

All the PIE audit firms have demonstrably evaluated whether their communication to students and the employment market is in line with the desired culture.

Measure 1.4 – Culture assessment

"The audit firm has demonstrably (on the basis of documentation) considered the aims and process of assessing its culture. If no culture assessment has yet been made, the audit firm has indicated when the assessment will be made (for example, after the assessment instrument developed by the NBA will have been finalised)."

Accon, BTB, EY, GT, KPMG and PwC have demonstrably considered the aims and process of culture assessment. They have either already carried out such an assessment, or have indicated when the assessment will be made. With respect to this measure, Mazars has only stated that it awaits the assessment instrument from the NBA. It has therefore not demonstrably considered the aims and process of culture assessment. BDO and Deloitte have stated that they have carried out a culture assessment, mainly in the form of employee satisfaction surveys. The AFM however considers that such surveys are not an adequate means of assessing an organisation's culture.

4.1.2 Governance

Table 15. Results for measures relating to 'governance'

Overview of results for measures from the report 'In the Public Interest'									
Expectation for 1 May 2015	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Governance									
2.2 - Profile description SB	-	+	-	-	+	+	+	-	+
2.3 - Description of duties of SB	-	-	-	-	+	+	+	-	+
2.4 - In AFM request linked to measure 2.3. Not separately evaluated.									

NBA expectation for 1 May 2015

Through the Consultation Platform for Public Audit Firms ('OPAK'), the NBA has explained to the PIE audit firms its expectation as of 1 May 2015 with respect to the measures relating to the subject 'governance'.

Measure 2.2

"The profile description for the SB is established. The profile description addresses at least the following:

- a. *the desired independence;*
- b. *the required expertise, including in relation to quality and the public interest;*
- c. *the competences required of individual members, including an attitude of professional scepticism;*
- d. *the desired competences of the SB as a whole;*
- e. *the desired diversity;*
- f. *the division of duties within the SB;*
- g. *the compatibility of the work of the SB and additional activities; and*
- h. *agreements regarding attendance at meetings of the SB,*

whereby the representation of these elements is in accordance with the relevant provisions in measures 2.1. to 2.6 and the Dutch Corporate Governance Code."

BDO, EY, GT, KPMG and PwC have established a profile description for the SB which addresses at least the above-mentioned elements. Accon has not established any profile description whatsoever. In the opinion of the AFM, the established profile descriptions of BTB, Deloitte and Mazars lack one or more of the above-mentioned elements or these elements are not fully in accordance with the relevant provisions of measures 2.1. to 2.6 or the Code.

Measure 2.3

“In the description of duties (duties and mandate) it is established that the SB focuses on the organisation-wide aspects that affect the quality of audits, independence, integrity and the interests of the external stakeholders in the audit. The description of duties includes a description of the activities (duties) and powers (mandate) of the SB.

The description of duties contains the following provisions regarding the powers (the mandate) of the SB:

- a. making a binding nomination for the appointment of members of the executive board of the Dutch principal holding company that can only be overturned by the shareholders with a qualified majority;*
- b. approval of the appointment and dismissal of partners in the audit practice;*
- c. approval of quality policy and safeguards;*
- d. approval of the remuneration policy for directors, partners and employees and determination of the remuneration for the board members of the Dutch principal holding company; and*
- e. approval of the appointment and evaluation of the compliance officer.*

The description of duties includes the supervisory duties of the SB with respect to the elements as stated in best practice provision III.1.6 of the Dutch corporate governance code, formulated specifically for the situation of the audit firm in question. The description of duties states that the SB will discuss the elements stated in best practice provision III.1.7 of the Dutch corporate governance code without the presence of the executive board at least once a year. The description of duties also states that the SB will discuss the audit firm with the AFM without the presence of the executive board once a year.”

The descriptions of duties of the SB formulated by EY, GT, KPMG and PwC establish at least the above-mentioned duties and powers. At BDO and BTB, one or more of the above powers are missing in the description of duties of the SB. The supervisory duties of the SB as stated in the descriptions of duties formulated by BTB and Mazars do not include all the elements stated in best practice provision III.1.6 of the Code. The descriptions of duties formulated by Accon, BTB and Mazars do not state that the SB will discuss all the elements stated in best practice provision III.1.7 of the Dutch corporate governance code without the presence of the executive board at least once a year. Lastly, the descriptions of duties formulated by Deloitte and Mazars do not state that the SB will discuss the audit firm with the AFM without the presence of the executive board once a year.

4.1.3 Evaluation and remuneration

Table 16. Results for the measures relating to 'evaluation and remuneration'

Overview of results for measures from the report 'In the Public Interest'									
Expectation for 1 May 2015	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Evaluation and remuneration									
3.1 - Remuneration policy audit partners and employees	-	+	+	+	+	-	+	+	+
3.2 - Promotion policy	-	+	+	+	+	-	+	+	+
3.4 - In AFM request linked to measure 3.1. Not separately evaluated.									
3.5 - Claw-back scheme	+	-	+	+	+	-	+	-	+
3.6 - Investment policy	-	+	+	+	+	+	+	+	+

NBA expectation for 1 May 2015

Through the Consultation Platform for Public Audit Firms ('OPAK'), the NBA has explained to the PIE audit firms its expectation as of 1 May 2015 with respect to the measures relating to the subject 'evaluation and remuneration'.

Measures 3.1 and 3.4

"The audit firm has demonstrably evaluated (based on documentation) whether its internal remuneration system is primarily designed to encourage quality, coaching and guidance. At least the following criteria are of importance here:

- a. *the principal portion of the variable and fixed remuneration of the individual employees employed at the audit practice and the remuneration or allocation formula on the basis of which the profit is shared by the audit partners are determined according to role, responsibility and the audit quality delivered, including the quality of guidance and coaching of team members and the results of file reviews; and*
- b. *the scores for quality, coaching and guidance have both positive and negative effects for the remuneration or allocation formula."*

With the exception of Accon and GT, all the PIE audit firms have demonstrably evaluated whether their internal remuneration systems are designed primarily to encourage quality, coaching and guidance and have therefore considered at least the above-stated criteria. GT has not demonstrably carried out such an evaluation. In the case of Accon, the AFM concludes that the evaluation conducted does not fully meet the expectation of the NBA as of 1 May, since it did not visibly include the above-stated criteria.

Measure 3.2

“The audit firm has demonstrably evaluated (based on documentation) whether its promotion policy meets the criteria of ‘professional expertise, an attitude of professional scepticism and quality’. As regards policy on promotion of employees, the aforementioned aspects should be decisive in the criteria applied for evaluation and promotion. With respect to the appointment of partners within the PIE audit practice, the following additional criteria should at least be included in the evaluation:

- a. at least the equivalent of 12 months experience in a position focusing on quality or professional development with a positive evaluation; and*
- b. at least three file reviews with a positive evaluation in the five years preceding the appointment.”*

With the exception of Accon and GT, all the PIE audit firms have demonstrably evaluated whether their promotion policy meets the criteria of ‘professional expertise, an attitude of professional scepticism and quality’ and have considered at least the above-stated criteria with respect to the appointment of partners. Accon and GT have not demonstrably evaluated their policies on promotion.

Measure 3.5

“The executive board of the audit firm has demonstrably (based on documentation) given instructions (to the line or a project team) to develop a proposal for how a claw-back scheme could be implemented in the organisation.”

At Accon, BTB, Deloitte, EY, KPMG and PwC, the executive board has demonstrably given instructions for the development of a proposal for how a claw-back scheme could be introduced in the organisation. BDO, GT and Mazars have not demonstrably given such instructions.

Measure 3.6

“The audit firm has demonstrably (based on documentation) evaluated the investment policy for its partners. The audit firm has a proposal for how a policy for personal investments by partners could be introduced or adjusted stating the restrictions that its partners must observe.”

With the exception of Accon, all the PIE audit firms have demonstrably evaluated the investment policy applying to their partners. These organisations have a proposal for how a policy for personal investments by partners could be introduced or adjusted stating the restrictions that their partners must observe. Accon has not carried out this evaluation and moreover has no proposal for the introduction or adjustment of an investment policy.

4.1.4 Measuring and improving quality

Table 17. Results for measures 'measuring and improving quality'

Overview of results for measures from the report 'In the Public Interest'									
Expectation for 1 May 2015	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Quality measurement and improvement									
5.1 - Quality indicators	-	+	+	+	+	+	+	+	+
5.2 - Reporting of procedure and time	-	-	-	+	+	+	+	-	+
5.3 - EQCR	+	+	-	+	+	+	+	+	-
5.5 - Improvement plan audit partner	-	+	+	-	-	-	+	-	+

NBA expectation for 1 May 2015

Through the Consultation Platform for Public Audit Firms ('OPAK'), the NBA has explained to the PIE audit firms its expectation as of 1 May 2015 with respect to the measures relating to the subject 'measuring and improving quality'.

Measure 5.1

"Audit firms have demonstrably (based on documentation) evaluated the indicators proposed in appendix 2 of the report 'In the Public Interest' for practicality and usefulness and tested for data availability."

With the exception of Accon, all the PIE audit firms have demonstrably evaluated and tested the proposed indicators. Accon has not demonstrably carried out this evaluation.

Measure 5.2

"The audit firm has demonstrably instructed the audit practice to report in writing to PIE audit clients regarding procedures and hours spent in relation to the statutory audit (ex-post calculation for financial 2014 and ex-ante calculation for 2015)."

The Big 4 audit firms and GT have demonstrably instructed the audit practice to report to PIE audit clients in writing regarding procedures and hours spent in relation to the statutory audit. The other PIE audit firms have not issued such a specific instruction to their audit practices.

Measure 5.3

“The audit firm has demonstrably (based on documentation) evaluated its policy with respect to engagement quality control reviews (EQCRs) on the basis of the following criteria:

- a. engagement quality control reviews (EQCRs) must be conducted by an EQCR team with senior team members led by an experienced partner (or experienced auditor from outside the organisation);*
- b. the members of the EQCR team permanently, or for a defined period, have a substantial proportion of their time available for the conduct of EQCRs;*
- c. more than one of the files dealt with by an audit partner must be subjected to an EQCR each year.*

If the EQCR policy does not or not yet meet these criteria, there is a demonstrable process (in the form of instructions and a project team) ongoing to adjust this EQCR policy.”

Accon, BDO, Deloitte, EY, GT, KPMG and Mazars have demonstrably evaluated their EQCR policies on the basis of the above criteria and have initiated a process to amend their EQCR policy where necessary. In the opinion of the AFM, BTB and PwC have incorrectly concluded that according to their policies more than one file of each audit partner will be subjected to an EQCR each year. However the EQCR policies at these PIE audit firms state that a certain percentage of files will be subjected to an EQCR or that each audit partner will be subjected to an EQCR each year. In both cases, this could mean that only one file for an audit partner will be subjected to an EQCR, so that there is no assurance that *more than one* of the files of each audit partner will be subjected to an EQCR each year.

Measure 5.5

“The audit firm has evaluated its existing policy regarding audit partners who do not meet the quality requirements. It has also demonstrably (based on documentation) considered necessary adjustments to this policy in order to meet the following criteria:

- a. this improvement plan will be implemented for a period of two years;*
- b. the number of EQCRs of the audit files of the partner in question will be significantly increased;*
- c. an evaluation of the development and quality over this period will be conducted after two years;*
- d. after two years, a decision will be taken as to whether the audit partner can continue to be an authorised signatory at the audit firm;*
- e. the decision regarding the audit partner remaining an authorised signatory will be submitted to the SB for approval.”*

BDO, BTB, KPMG and PwC have evaluated their existing policies with respect to audit partners that do not meet the quality requirements and have demonstrably considered the necessary

adjustments to their policies in accordance with the criteria stated above. For Deloitte, EY, GT and Mazars, the AFM concludes that one or more of the above criteria are missing in the considerations of the policy adjustments these organisations need to make, while the AFM is of the opinion that the policy does not fully meet the criteria. For example, because the organisation applies a term of one year rather than the two-year period stated in the criteria, or because the policy does not state that the decision regarding the audit partner's ability to continue as an authorised signatory has to be submitted to the SB for approval. In the case of Accon, the AFM notes that this firm has not demonstrably considered the necessary adjustments to its policy.

4.2 Full implementation of the measures

Table 18 shows whether in the opinion of the AFM the PIE audit firms have already moved beyond the expectation of the NBA for 1 May 2015 with the implementation of the measures. A plus sign (+) indicates that in the opinion of the AFM the PIE audit firm has implemented the aspects that go beyond the expectation of the NBA as at 1 May 2015. A minus sign (-) indicates that from the information provided by the PIE audit firm, the AFM infers that the organisation has made a start on implementing the aspects that go beyond the expectation of the NBA as at 1 May 2015, but the AFM is of the opinion that the implementation is not yet fully in accordance with the formulated measure. Lastly, a minus sign with an asterisk (-*) shows that the PIE audit firm has itself indicated as at 1 May 2015 that it has not yet made a start on the implementation of the aspects that go beyond the expectation of the NBA as of that date.

Table 18. Results for measures beyond the expectation as of 1 May 2015 in the report 'In the Public Interest'

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Culture and behaviour									
1.3 - Employment market profile	-*	-*	-*	-	+	-*	+	-	+
1.4 - Culture assessment	-*	-*	-	-	-	-*	-	-*	-
Governance									
2.1 - Appointment of SB	+	-*	-*	+	+	+	+	-*	+
2.2 - Profile description on website	-*	-*	-*	-	-*	-*	+	-*	+
2.2 - Appointment, suspension, dismissal of members	+	-	-	-	-	-	+	-*	-
2.2 - Regulations	-	-*	-*	-	-	-	+	-*	+
2.2 - Rotation schedule	-*	-*	-*	+	-*	-	+	-*	+
2.2 - Introduction programme	-*	-*	-*	+	+	-	+	-*	+
2.2 - Annual review	-	+	-*	+	+	-	+	-*	+
2.5 - Public interest and key SB committees	+	+	-	-	+	-	+	-*	+
2.6 - Report of the SB	-	-*	-*	+	-	-	+	-*	+
2.7 - Profile description for executive board	-	-*	-	+	-*	-	+	-*	+
2.8 - Time allocation of executive board	+	-*	-*	+	-	-	+	-*	-
Evaluation and remuneration									
3.1 - Remuneration policy audit partners and employees	-*	-*	-*	+	-	-	+	-	-
3.2 - Promotion policy	-*	-*	-	+	-	-	+	-*	+
3.3 - Remuneration policy SB, board and policymakers	-*	-	-*	-	-*	-*	+	-*	+
3.4 - In AFM request linked to measure 3.1. Not separately evaluated.									
3.5 - Claw-back scheme	-*	-*	-*	-	-	-*	+	-*	-
3.6 - Investment policy	-*	-*	-*	-	-*	-*	+	-*	-
3.7 - Phase-out of goodwill	n.a.	+	+	+	n.a.	+	+	n.a.	n.a.
3.8 - Introduction of pension scheme	n.a.	+	-*	-*	+	-*	+	-*	-*
Client relations									
4.6 - Information on content of management letter	-	-*	-*	+	+	-*	+	-	+
Quality measurement and improvement									
5.1 - Quality indicators	-*	-*	-	+	-*	-	-	-	-
5.3 - EQCR	+	-*	-	+	+	-*	+	-*	-
5.5 - Improvement plan for audit partner	-*	-*	-*	-	-	-	-	-*	+
5.9 - Education	-	+	+	+	+	-*	+	-	+
Implementation									
8.1 - Implementation	+	-*	-	+	-*	-*	+	-*	-

4.2.1 Culture and behaviour

Table 19. Results for measures 'culture and behaviour'

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Culture and behaviour									
1.3 - Employment market profile	-*	-*	-*	-	+	-*	+	-	+
1.4 - Culture assessment	-*	-*	-	-	-	-*	-	-*	-

Measure 1.3 – Employment market profile

“In its profiling towards students and the employment market, the profession expresses the values, standards and qualities of an auditor that require attention in the creation of the desired culture at audit firms: focus on quality, an attitude of professional scepticism, accuracy, reliability, standing firm, social engagement.”

EY, KPMG and PwC have fully implemented measure 1.3. On the reference date, Deloitte and Mazars had made a start on further implementation of this measure but had not made the necessary changes to their employment market profiles. Accon, BDO, BTB and GT stated that they have not yet made a start on adjusting their employment market profiles.

Measure 1.4 – Culture assessment

“PIE audit firms regularly assess the mind-set and drivers of the partner group, other senior management and employees. The SB is informed of the results of this assessment and the actions proposed on this basis. The SB must approve the board resolution regarding actions to be taken. The results of the assessment of individuals are included by the executive board and the SB in the decision-making and approval of partner appointments.”

BTB, Deloitte, EY, KPMG and PwC state they carry out a culture assessment on a regular basis. BTB and Deloitte do this mainly in the form of employee satisfaction surveys. The AFM however considers that such surveys are not an adequate means of assessing an organisation’s culture. The involvement of the SB in the results of the culture assessment and the authority of the SB with regard to approval of the board resolution regarding the actions to be taken on the basis of the results have not been arranged at BTB, EY, KPMG and PwC, since these organisations did not yet have an operational SB on the reference date.

Accon, BDO, GT and Mazars stated on the reference date that they do not yet carry out regular culture assessments.

4.2.2 Governance

Table 20. Results for measures relating to 'governance'

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Governance									
2.1 - Appointment of SB	+	-*	-*	+	+	+	+	-*	+
2.2 - Profile description on website	-*	-*	-*	-	-*	-*	+	-*	+
2.2 - Appointment, suspension, dismissal of members	+	-	-	-	-	-	+	-*	-
2.2 - Regulations	-	-*	-*	-	-	-	+	-*	+
2.2 - Rotation schedule	-*	-*	-*	+	-*	-	+	-*	+
2.2 - Introduction programme	-*	-*	-*	+	+	-	+	-*	+
2.2 - Annual review	-	+	-*	+	+	-	+	-*	+
2.5 - Public interest and key SB committees	+	+	-	-	+	-	+	-*	+
2.6 - Report of the SB	-	-*	-*	+	-	-	+	-*	+
2.7 - Profile description for executive board	-	-*	-	+	-*	-	+	-*	+
2.8 - Time allocation of executive board	+	-*	-*	+	-	-	+	-*	-

Measure 2.1 – Appointment of SB

“An SB is appointed at the Dutch principal holding company of any group including an audit firm with a PIE licence.”

Accon, Deloitte, KPMG and PwC had appointed an SB as of the reference date. BDO, BTB, EY, GT and Mazars stated on the reference date that they had not yet appointed an SB. EY and GT have now appointed an SB.

Measure 2.2 – Composition and working practices of the SB

“The composition (including the independence) and working practices of the SB are governed by the principle provisions III.1, III.2 and III.3 of the Dutch Corporate Governance Code (CGC). These provisions have been adopted in an NBA regulation so that they fall within the scope of supervision by the AFM. The composition of the SB is such that its members can operate independently and

with a critical attitude. In addition to the competences listed in the CGC, the SB is competent with respect to quality policy and the public interest. In line with the CGC all SB members, with the exception of not more than one person, are independent and therefore external members. The chair of the SB must always be an external member and independent. The selection of SB members is based on a profile description (see CGC principle provision III.3) including the stated areas of expertise. Appointment is made on the basis of a binding nomination by the SB, which can only be overturned with a qualified majority. The same applies to suspension and dismissal. The composition of the SB shall be diverse. The aim with respect to composition shall be at least 30% women (and at least 30% men). Before a (proposed) SB member can be nominated, a suitability test must be conducted by the AFM.”

Measure 2.2 - Profile description on website

Measure 2.2 states that *“selection of SB members shall be made on the basis of a profile description (see CGC principle provision III.3)”*. Best practice provision III.3.1 of the Code states: *“The profile description shall be made generally available and placed on the company’s website.”*

KPMG and PwC have placed their profile descriptions on their websites. The other PIE audit firms have not yet made their profile descriptions available online.

Measure 2.2 – Appointment, suspension and dismissal of members

Measure 2.2 states: *“Appointment is made on the basis of a binding nomination by the SB, which can only be overturned with a qualified majority. The same applies to suspension and dismissal.”*

Accon and KPMG have ensured that appointment, suspension and dismissal of SB members occur on the basis of a binding nomination or recommendation by the SB that can only be overturned by a qualified majority. BDO, BTB, Deloitte, EY, GT and PwC have made a start on establishing these powers of the SB. They have not however fully complied with the measure, for example because the arrangement does not cover appointment, suspension and dismissal or overturning the recommendation by a qualified majority has not yet been established. Mazars stated that it has not yet made a start on establishing these powers of the SB.

Measure 2.2 – Regulations

Measure 2.2 seeks correspondence with various provisions in the Code, including principle III.1. Best practice provision III.3.1 of the Code states: *“The division of duties of the supervisory board and its working practice shall be established in regulations. In its regulations, the supervisory board shall include a passage relating to its dealings with the executive board, the general*

meeting and the central (if applicable) works council. The regulations shall be made available on the company's website."

KPMG and PwC have formulated regulations for their SBs and placed these on their websites. As of the reference date, Accon, Deloitte, EY and GT did not fully comply with the above measure since the regulations were not placed on the website and/or the regulations did not include the stated passages, for instance with reference to dealings with the works council. BDO, BTB and Mazars had not formulated regulations for their SBs as at the reference date.

Measure 2.2 – Rotation schedule

Measure 2.2 seeks correspondence with various provisions in the Code, including principle III.3. Best practice provision III.3.6 of the Code states: *"The supervisory board shall formulate a rotation schedule in order as far as possible to avoid a situation in which many SB members step down at the same time. The rotation schedule shall be made generally available and placed on the company's website."*

Deloitte, KPMG, and PwC have rotation schedules for their SBs that are placed on their respective websites. Accon, BDO, BTB, EY, GT and Mazars did not yet comply with this measure and had not yet placed a rotation schedule on their respective websites. This could be due firstly to the fact that there was no SB in operation on the reference date, meaning that no rotation schedule could be formulated or secondly because this duty of the SB had not been established.

Measure 2.2 – Introduction programme

Measure 2.2 seeks correspondence with various provisions in the Code, including principle III.3. Best practice provision III.3.3 of the Code states: *"After appointment, all members of the supervisory board follow an introduction programme which in any case focuses on general financial, social and legal affairs, the financial reporting of the company, the specific aspects of the company concerned and its business activities and responsibilities of a supervisory board member. The supervisory board shall assess each year the areas in which SB members require further training or education during their appointment term. The company's role shall be to facilitate this."*

The Big 4 audit firms have established that after appointment all SB members follow an introduction programme and they provide facilities for further training and education of the SB members during their term of appointment. GT does not fully comply with the measure, since the establishment of the organisation's facilitating role with respect to the need for further training or education of SB members during their term of appointment is lacking. Accon, BDO, BTB and Mazars have stated that they have not yet implemented this measure at all.

Measure 2.2 – Annual review

Measure 2.2 seeks correspondence with various provisions in the Code, including principle III.1. Best practice provision III.1.8 of the Code states: *“At least once a year, the supervisory board discusses the strategy and principal risks associated with the company's business and the results of the assessment by the executive board of the structure and operation of the internal risk management and control systems, as well as any significant changes thereto. The fact that these discussions have been held shall be noted in the report of the supervisory board.”*

The Big 4 audit firms and BDO comply fully with this measure, as they have established that the SB discusses the items stated in the measure each year and reports these discussions in the report of the SB. Accon, BDO and GT have made a start on establishing this duty, however they do not yet fully comply because (for instance) they have not yet established all the items to be discussed or established the annual term. BTB and Mazars have not yet established this duty of the SB at all.

Measure 2.5 – Public interest and key SB committees

“The SB shall form key committees as desired in accordance with the CGC. All the members of the remuneration committee shall be independent. Safeguarding the public interest is an essential part of the duties of the SB as a whole. The function of the existing Public Interest Committee will be integrated into the SB.”

Accon, BDO, EY, KPMG and PwC have established the possibility of forming key committees within the SB in accordance with the Code. They have also designated safeguarding the public interest as an essential duty of the SB and made it possible for the public interest committee to be integrated into the SB. BTB, Deloitte and GT do not yet fully comply with this measure, since they have not formulated one or more elements in the measure or have formulated certain elements differently. Mazars states that it has not yet taken any measures with respect to the integration of the public interest committee and any key committees.

Measure 2.6 – Report of the SB

“The SB shall include an extensive report in the annual report of the Dutch principal holding company and the transparency report of the audit firm. This shall give an account of how the SB has performed its role with respect to each of the duties and responsibilities assigned to the SB, the procedures that have been followed and the principal substantive findings, discussions and decisions of the SB.”

Deloitte, KPMG and PwC have fully implemented this measure. Accon, EY and GT have not yet fully implemented this measure. In several cases, not all the items stated in the measure that form part of the report of the SB have been established. BDO, BTB and Mazars have not yet ensured that the SB includes a report in the annual report of the principal holding company and the transparency report of the audit firm.

Measure 2.7 - Profile description for the executive board

“The composition of the organisation’s executive board should be sufficiently diverse with adequate consideration for the interests of external stakeholders. The SB supervises the appointment of board members for the Dutch principal holding company. The appointment of persons from outside can be useful in certain cases, but it is not a necessity. The selection of board members is made on the basis of a profile description formulated by the SB stating the areas of expertise mentioned and after a suitability test by the AFM.”

Deloitte, KPMG and PwC have fully implemented this measure. Accon, BTB and GT have made a start on the implementation of this measure, but have not yet visibly implemented all the elements of the measure. One example of a missing element is the supervision by the SB with respect to the diversity of the board’s composition. BDO, EY and Mazars stated that they have not yet made a start on establishing this power of the SB.

Measure 2.8 – Time allocation of the executive board

“The executive board must be able to maintain sufficient distance from the partnership and be able to devote sufficient time to the management of the organisation. The board member with primary responsibility for the policy on quality should focus particularly on this task. The SB formulates the principles for the allocation of time by board members to board duties and other responsibilities and oversees that these are complied with. A board member may have the capacity for a limited portfolio as an auditor, however only with the permission of the SB.”

Accon, Deloitte and KPMG have fully implemented this measure. EY, GT and PwC have made a start on the implementation of this measure, however they have not fully implemented it since one or more of the elements stated in the measure are still missing. One example of a missing element is establishing that a board member may only have a limited portfolio as an auditor with the permission of the SB. BDO, BTB and Mazars stated that they have not yet made a start on establishing this power of the SB.

4.2.3 Evaluation and remuneration

Table 21. Results for the measures relating to 'evaluation and remuneration'

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Evaluation and remuneration									
3.1 - Remuneration policy audit partners and employees	-*	-*	-*	+	-	-	+	-	-
3.2 - Promotion policy	-*	-*	-	+	-	-	+	-*	+
3.3 - Remuneration policy SB, board and policymakers	-*	-	-*	-	-*	-*	+	-*	+
3.4 - In AFM request linked to measure 3.1. Not separately evaluated.									
3.5 - Claw-back scheme	-*	-*	-*	-	-	-*	+	-*	-
3.6 - Investment policy	-*	-*	-*	-	-*	-*	+	-*	-
3.7 - Phase-out of goodwill	n.a.	+	+	+	n.a.	+	+	n.a.	n.a.
3.8 - Introduction of pension scheme	n.a.	+	-*	-*	+	-*	+	-*	-*

Measure 3.1 – Remuneration policy for audit partners and employees

“All audit firms must demonstrably have an internal remuneration system in which the rewarding of quality, including coaching and guidance, is the primary consideration. The principal portion of the variable and fixed remuneration of the individual employees employed at the audit practice and the remuneration or allocation formula on the basis of which the profit is shared by the audit partners are determined according to role, responsibility and the audit quality delivered, including the quality of guidance and coaching of team members and the results of file reviews. In the system, quality should entail both positive and negative consequences for the remuneration or allocation formula. The remuneration policy, including the criteria on the basis of which the profit is shared between the audit partners, the policy on personal investments by individual partners and the remuneration of the individual board members of the audit firm are published in the annual report, the transparency report or on the website of the audit firm.”

In the AFM’s request for information, this measure is linked to measure 3.4:

“For the other audit partners, the remuneration or allocation formula on the basis of which the partner’s entitlement to profit is determined includes a component that is based on the role and responsibility and a variable component. This last component should be mainly based on quality-related criteria, including results of file reviews, results of employee satisfaction surveys and individual evaluations by team members of the guidance given by the partner. The remuneration or allocation formula may consist of rewards based on other objectives. There should however be no weight attached to an above-average performance with respect to commercial targets if the audit partner in question receives a negative evaluation with respect to audit quality. Amounts withheld from the remuneration of individual audit partners due to an unsatisfactory evaluation

on delivered quality should not be used for distribution to the other partners, it should be applied to specific measures focused on quality improvement in consultation with the SB. The working group takes the view that quality is also a collective responsibility. It is therefore not appropriate that problems relating to quality at the firm should have a positive effect on the remuneration of any individual in the organisation.”

Deloitte and KPMG have fully implemented these measures. Mazars and PwC have started to bring their remuneration policies in line with the requirements of the measures, however one or more elements are still missing, for instance the element that quality should have both positive and negative consequences for the remuneration or the allocation formula. Accon, BDO, BTB, EY and GT stated that they have not yet started to follow up on the evaluation of their remuneration policies to bring them into line with these measures, for instance because these firms have not yet made any (visible) evaluation of their respective remuneration policies.

Measure 3.2 – Promotion policy

“Professional expertise, an attitude of professional scepticism and the quality of procedures should be the crucial elements in the promotion policy for employees of the audit practice in the organisation, including the criteria for the appointment of partners. This should include a curriculum that candidates have to follow before they become eligible for appointment as a partner. The elements of this should be demonstrable work experience (with a positive evaluation) in a position focused on quality or professional development (for instance a department involved in professional skills or compliance), during a relevant time period and a representative number of file reviews with a positive evaluation. For the appointment of partners at a PIE audit practice in an audit firm and before someone can operate as a partner at a PIE audit firm, candidates should demonstrably have at least the equivalent of 12 months’ experience in a position focusing on quality or professional development with a positive evaluation and at least three file reviews with a positive evaluation during the last five years prior to appointment. At PIE audit firms, the SB should in any case (but not exclusively) carry out explicit testing of the above aspects when approving partner appointments. For the sake of a diligent and operationally feasible implementation of this measure, the working group considers that a transitional arrangement is needed. A person who does not yet meet the criterion with respect to experience in a position focusing on quality or professional development may be appointed for up to three years, on condition that he obtains the required experience within five years after his appointment.”

Deloitte, KPMG and PwC have fully implemented this measure. BTB, EY and GT have partially implemented this measure, however in each case one or more of the elements stated in the measure are missing or a term for the transitional arrangement has been chosen that differs from that stated in the measure. Accon, BDO and Mazars stated that they have not yet followed up the results of the evaluation of their respective promotion policies or have not yet visibly carried out an evaluation.

Measure 3.3 – Remuneration policy for SB, executive board and policymakers

“The principle provisions II.2 and III.7 of the CGC with respect to the remuneration of board members or supervisory board members will be adopted into an NBA regulation so that these provisions fall within the scope of the supervision exercised by the AFM. The remuneration of members of the SB is established annually and is not related to the results of the organisation. The remuneration is set at a level that is appropriate to the responsibility of the SB members and an adequate allocation of time for the proper exercise of their duties. The members of the executive board of the Dutch principal holding company of a PIE audit firm should receive a remuneration that is established by the SB and that has no direct relationship with the profitability of the organisation in the year in question. This remuneration consists of a fixed amount established by the SB at the beginning of the year in accordance with the remuneration policy, plus a variable amount that may be up to 20%. The variable portion of the remuneration of the members of the executive board of the Dutch principal holding company must be based on the realisation of long-term objectives set by the SB that are appropriate to the public function of the organisation (including the quality of audits) and the specific responsibilities within this of the board member in question. The executive board of the principal holding company supervises that the remuneration of the policymakers of the PIE licensee is appropriate to the objectives set and the policy described under measure 3.1.”

KPMG and PwC have fully implemented this measure. BTB and Deloitte have not yet fully implemented the measure as they have not yet brought the remuneration of board members and the remuneration of the policymakers of the PIE licensee in accordance with the requirements of the measure. Accon, BTB, EY, GT and Mazars have also not yet established the remuneration of their respective SBs, and therefore have not implemented this measure at all.

Measure 3.5 - Claw-back scheme

“PIE audit firms operate a claw-back scheme with a term of 6 years (the maximum term for commencement of proceedings at the Disciplinary Court for Auditors) whereby the public auditor makes a lump sum contribution or accrues this over 6 years through retention of profit entitlements. The amount covered by the scheme accrues over these 6 years to a single average annual income received over the most recent 6-year period. If before this term expires it emerges that culpable actions by the auditor have led to the issuance of an incorrect statement that has caused public damage, the amount covered by the scheme shall not be paid out and the auditor will either fully or partially lose his entitlement to these profits. The amount of the reserved profit entitlements or contributed lump sum to be withheld is to be definitively decided by the SB and will depend on the materiality of the shortcoming and the public damage that this caused. This measure applies not only to signing partners, if applicable the role of the partner responsible for the engagement quality control review with respect to the engagement and other team members should also be evaluated. Sums withheld under the claw-back scheme shall not be distributed to the other partners, in consultation with the SB they should be applied to specific measures designed to improve quality.”

KPMG has fully implemented this measure. PwC has a proposal for a claw-back scheme, but has not yet implemented it in its organisation. The other PIE audit firms have not yet introduced a claw-back scheme or do not (visibly) have a proposal for this available.

Measure 3.6 – Investment policy

“Audit firms have a policy regarding personal investments by partners that states the restrictions that these partners must observe. This investment policy must be approved by the SB.”

KPMG has fully implemented this measure. The other PIE audit firms have not yet implemented this measure since they do not have a proposal for an investment policy or their SB has not yet approved this policy. This last point is due to the fact that not all PIE audit firms had a functioning SB on the reference date.

Measure 3.7 – Phase-out of goodwill

“The sector is starting a process designed for the gradual phasing out of the model whereby joining partners have to contribute capital to acquire a share in the organisation (the ‘goodwill model’) within a reasonable time period and with an appropriate transitional arrangement.”

This measure does not apply to Accon, EY, Mazars and PwC since these firms do not have a goodwill model. All the other PIE audit firms have fully implemented this measure, since they have all started a process designed to gradually phase out goodwill.

Measure 3.8 – Introduction of a pension scheme

“The sector is studying the introduction of a pension scheme for the professional group in which audit partners of PIE audit firms will be obliged to participate and other partners may participate on a voluntary basis. The working group has the impression that introduction of a pension scheme would be desirable, however the consequences for issues such as independence first have to be studied.”

BDO, EY and KPMG have fully implemented this measure. BTB, Deloitte, GT, Mazars and PwC have stated they have not yet started a study for the introduction of a pension scheme. This measure does not apply to Accon, since this organisation already has a pension scheme.

4.2.4 Client relations

Table 22. Results for measures 'client relations'

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Client relations									
4.6 - Information on content of management letter	-	-*	-*	+	+	-*	+	-	+

Measure 4.6 – Information on content of management letter

“The auditor must at all times permit the SB and executive board (or similar organs) to provide information on the content of the management letter in the annual report or at the general meeting. The auditor shall in this case oversee that this information is correct and balanced.”

The Big 4 audit firms have fully implemented this measure. At Accon and Mazars the procedure or internal instructions regarding the provision of the contents of the management letter have not yet been finalised. BDO, BTB and GT stated that they have not yet started to implement this measure.

4.2.5 Measuring and improving quality

Table 23. Results for measures 'measuring and improving quality'

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Quality measurement and improvement									
5.1 - Quality indicators	-*	-*	-	+	-*	-	-	-	-
5.3 - EQCR	+	-*	-	+	+	-*	+	-*	-
5.5 - Improvement plan for audit partner	-*	-*	-*	-	-	-	-	-*	+
5.9 - Education	-	+	+	+	+	-*	+	-	+

Measure 5.1 – Quality indicators

“For a standard set of quality indicators, including indicators relating to leverage and coaching, audit firms must state their internal target or standard for the indicator in question in their transparency report or annual report, what the actual outcome was for the past year and what actions are to be taken if the result fails to meet the target or standard. The indicators proposed by the working group are included in Appendix 2 to this report. The indicators to be reported in 2015 and 2016 must be definitively established by the NBA before the end of 2014 and will be periodically adjusted on the basis of the findings of academic research and dialogue with stakeholders.”

Deloitte has fully implemented this measure. BTB, GT, KPMG, Mazars and PwC have not yet fully implemented this measure. They have not yet visibly established internal targets or standards for the quality indicators in their standard set. Mazars and PwC moreover are missing other elements in the measure, such as indicators relating to leverage and coaching or the statement of actions to be taken if the actual results for the quality indicators fail to meet the target or standard. Accon, BDO and EY stated that they do not yet have a standard set of quality indicators.

Measure 5.3 - EQCR

“Engagement quality control reviews (EQCRs) must be conducted by an EQCR team with senior team members led by an experienced partner (or experienced auditor from outside the organisation). The members of the EQCR team permanently, or for a defined period, have a substantial proportion of their time available for the conduct of EQCRs. More than one of the files dealt with by an audit partner must be subjected to an EQCR each year.”

Accon, Deloitte, EY and KPMG have fully implemented this measure. Some other audit firms have not fully implemented this measure in line with the requirements of the measure because for instance they have stated the number of files in their respective EQCR policies in percentages, meaning that they could deviate from the requirement in the measure relating to ‘more than one of the files’. BDO, GT and Mazars stated that they have not yet started the further implementation of this measure.

Measure 5.5 – Improvement plan for audit partners

“If it is established that audit files and procedures carried out by an audit partner fail to meet the quality requirements, in addition to the effects of this on remuneration referred to in section 6, an improvement plan must be formulated for this audit partner in consultation with the compliance officer and the board member with responsibility for quality. This improvement plan must be in effect for a term of two years and the number of EQCRs carried out on the audit files of the partner

in question must be substantially increased. An evaluation of the development and quality during this term must be made after two years and a decision must be made as to whether the audit partner can continue to be an authorised signatory at the audit firm. A substantiated decision in this respect must be submitted to the SB for approval.”

PwC fully complies with this measure. Deloitte, EY, GT and KPMG have made a start on introducing the measure but do not yet fully comply. The reasons for this are that these firms have chosen to use a different term of one year instead of two years for the operation of the improvement plan, or that they have not yet established the SB’s power of approval. Accon, BDO, BTB and Mazars have not yet implemented the necessary adjustments to their respective policies regarding improvement plans for audit partners.

Measure 5.9 - Education

“The profession must actively contribute to the quality of education by making experienced and leading practitioners available.”

BDO, BTB, Deloitte, EY, KPMG and PwC state that they contribute actively to the quality of education. Accon and Mazars state that they intend to contribute to the quality of education, but that they did not do so on the reference date. GT stated that it had not yet taken any action with respect to this measure.

4.2.6 Implementation

Table 24. Results for measures relating to ‘implementation’

Overview of results for measures from the report 'In the Public Interest'									
Beyond 1 May 2015									
	Accon	BDO	BTB	Deloitte	EY	GT	KPMG	Mazars	PwC
Implementation									
8.1 - Implementation	+	l*	-	+	l*	l*	+	l*	-

Measure 8.1 – Implementation

“In their transparency reports or annual reports, audit firms must give account of the implementation of the measures included in the agreement. As soon as an SB is appointed at the organisations concerned, the SB must also supervise the timely and correct implementation of the measures.”

Accon, Deloitte and KPMG have ensured that the SB supervises the timely and correct implementation of the measures, and that account is given of the implementation in their respective transparency reports or annual reports. This measure has not yet been implemented by BDO, EY, GT and Mazars. It has also not been fully implemented by BTB and PwC.

5. Description of the review

5.1 Purpose of the review

The AFM's supervision of audit firms is designed to improve the quality of statutory audits and to ensure this in the longer term. The AFM's review of the change initiated and associated future-oriented improvement measures at PIE audit firms is intended to contribute to this improvement in quality and its permanent establishment. Changes for which the public importance of statutory audits are the central issue must ensure that the confidence of users of audit opinions, such as investors, pension scheme members and consumers is restored.

In this review, the AFM has assessed the information provided by the nine PIE audit firms on the change and improvement measures on a number of elements and expressed its evaluation in a score for each element (as described in section 3). The AFM presents an overview of the findings of its review by including the scores in a dashboard.¹³ This dashboard for the PIE audit firms shows the elements in which they meet the expectations and the elements where the AFM expects to see further development or improvement. By publishing the general points arising from the individual dashboards, the AFM is making its opinion regarding the state of affairs at the PIE audit firms visible to the public. Readers of this information can then establish how the PIE audit firms relate to each other with respect to the elements reviewed. The AFM considers that transparency with regard to quality contributes to audit firms being assessed more on quality and less on price. This can permanently improve quality and avoid a situation in which the audit is seen as a commodity without any real added value.

5.2 Fulfilment of statutory duty

With this review, the AFM is fulfilling its statutory duty to periodically assess whether licensed audit firms are complying with the Wta. The AFM carries out this periodic assessment by conducting various types of review: regular reviews (i.e. inspections), thematic reviews and incident reviews (i.e. investigations). Regular inspections are mainly designed to establish whether the statutory audits performed are of sufficient quality, the statutory auditors have complied with the relevant legislation and regulation and the system of quality control has operated adequately. In its thematic reviews, the AFM focuses on one specific issue. A theme may consist of statutory audits in a particular sector, compliance with a new regulation, or the preconditions that

¹³ The AFM has been using a dashboard in its supervision of banks and insurers for several years. With its Customer Interests Dashboard, the AFM measures the extent to which banks and insurers give the interests of customers a central priority in their policies and practices. For further information on the Customer Interests Dashboard, see <http://www.afm.nl/nl-nl/over-afm/toezicht-thema/kbc/dashboard>.

determine the quality of statutory audits. An incident review is usually designed to assess whether there has been an infringement or other kind of damaging behaviour with regard to the incident in question.

This review of the design of the change initiated and the future-oriented improvement measures is a thematic review that relates to several aspects that contribute to or affect the duty of care of the audit firm. An adequately designed and operating system of quality control and an ethical and controlled business operation, but also aspects such as properly operating governance, contribute to proper fulfilment of the duty of care. Proper fulfilment of the duty of care entails that the substance of the separate modules is at least adequately represented and that this representation in any case is made on the basis of the elements of the various modules stated in this report. Change and improvement measures are needed in order to achieve an adequate representation of the preconditions. These are preconditions that audit firms have to create in order for their statutory auditors to function adequately. The issues assessed by the AFM in this review have provided them with insight into various aspects of these preconditions. The AFM will assess the quality of the statutory audits in its regular inspections that it will carry out from 2015 to 2017.

5.3 Dashboard and modules

The various issues reviewed by the AFM and that form part of the dashboard are known as 'modules'. These modules consist of various elements. The dashboard for PIE audit firms consists of the following modules:

1. Executive board
2. Quality-oriented culture
3. System of quality control and monitoring
4. Internal supervision
5. Relationship of the audit firm to its environment
6. Network
7. Change

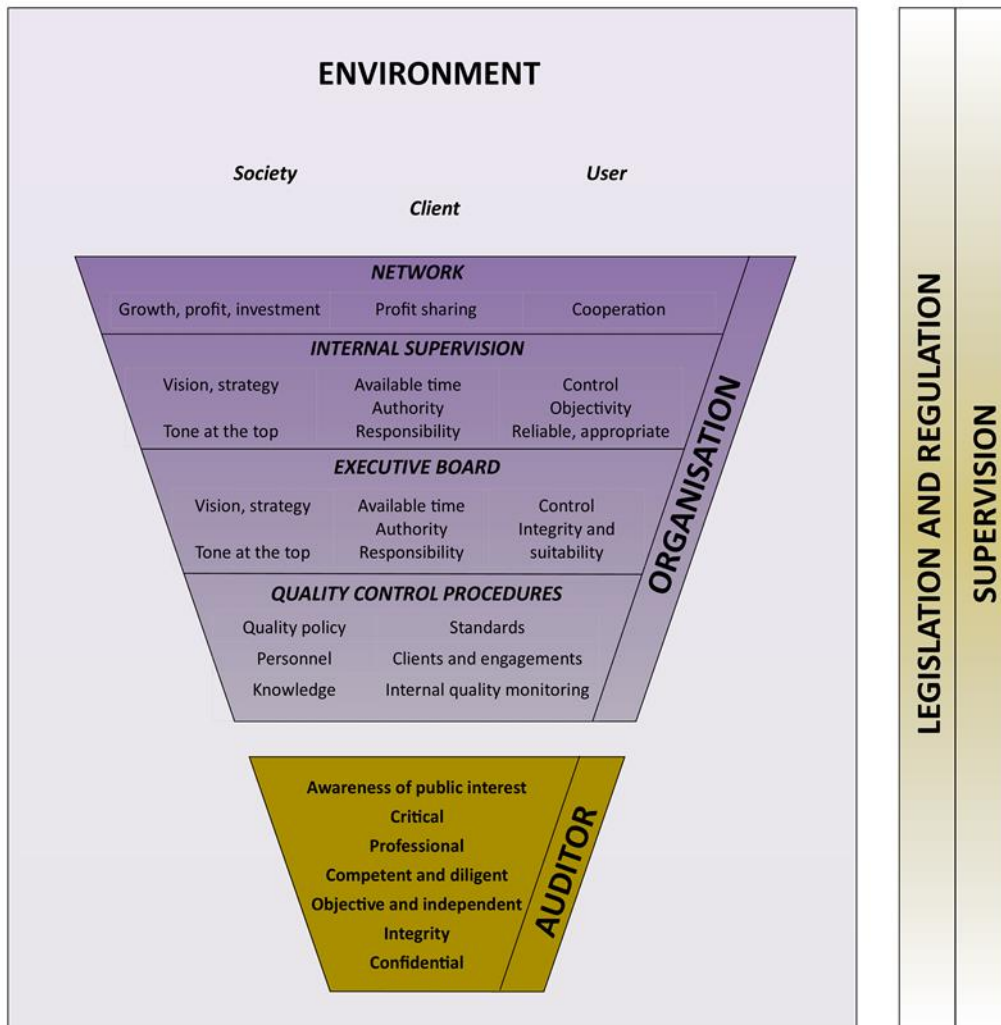
These modules correspond to the system in which auditors carry out statutory audits (figure 2). The quality of a statutory audit mainly depends on the proper performance of professional duties by the statutory auditor conducting the audit. This statutory auditor is always employed by or affiliated to an audit firm. The audit firm has a duty of care with respect to these statutory auditors: they have to ensure that their statutory auditors comply with relevant legislation and regulation in the performance of statutory audits, that they deliver adequate quality and contribute to the degree of confidence that the intended users place in financial statements. There are various aspects inside and outside the audit firm that contribute to or affect this duty of care, including:

- *Executive board* (module 1). The executive board of an audit firm determines the daily policy of the audit firm, and with its tone at the top (what the board says and does), it has an important function by setting an example and thereby co-determines the quality-oriented culture of the audit firm. The board's responsibilities also include the design and operation of the system of quality control.
- *Quality-oriented culture* (module 2). The degree to which the culture of an audit firm is quality-oriented and gives central priority to the public importance of statutory audits is an important determining factor of the quality of these audits.
- *System of quality control and monitoring* (module 3). The system of quality control consists of procedures, descriptions and standards that create the preconditions for adequate performance by the statutory auditor and which imposes measures if the statutory auditor's performance no longer meets the set requirements.
- *Internal supervision* (module 4). An internal supervisory body is tasked with ensuring that the executive board of the audit firm is kept aware of its responsibilities with respect to public expectations that good quality statutory audits are performed.
- *Network* (module 6). The PIE audit firms are part of a greater whole. They work within a network in the Netherlands together with other organisations in a wide field involving tax, financial and in some cases legal advice. In addition, these networks often extend beyond the Netherlands around the world.
- *Relationship of the audit firm to its environment* (module 5). The statutory auditor and the audit firm for which he works have a relationship with their environment. In order to add value for the users of the financial statements and society in general, the statutory auditor and the audit firm are independent of the audit client and they provide sufficient transparency regarding the way in which they conduct audits and the quality thereof.

For each of these aspects, the AFM has reviewed the design of the change and future-oriented improvement measures in various respects. Lastly, the AFM has reviewed:

- *Change* (module 7). The PIE audit firms formulate a consistent and balanced vision of change on the basis of a thorough root cause analysis.

Figure 2. System within which statutory audits are conducted



By monitoring these aspects, the AFM can measure the developments made by the PIE audit firms. The dashboard will also be used by the AFM in the coming years to establish the progress of change at the PIE audit firms. With effect from 2016 therefore, the results of the dashboard can be expected to be related to the findings of regular inspections of the quality of statutory audits.

5.4 Objectives, expectations and scores

The AFM has set an objective for each of the seven dashboard modules for the medium to longer term and defined an expectation for 2015. Section 3 gives a brief description of the issue and the AFM's expectation for 2015 for each module. The objectives formulated for each module for the medium to longer term are shown in Appendix I. These expectations and objectives were shared with the NBA prior to the review.

In the medium to longer term, the AFM hopes to establish for each issue that the issue in question contributes in both *design* and *operating effectiveness* to the improvement and permanent assurance of the quality of statutory audits. The objectives for the medium to longer term and expectations are based among other things on applicable legislation and regulation (in particular, the duty of care, the system of quality control and the requirement of ethical and controlled business operation¹⁴), the problem analyses and proposals for improvement as described in the report 'In the Public Interest', the detailed recommendations and suggestions of the AFM in recent years and the measures formulated by the audit firms, including those prompted by these reviews.

The AFM has described for each module what it expects the PIE audit firms to achieve in 2015 in order to be able to achieve the medium to longer term objectives. The AFM has evaluated this on the basis of the information it received from the PIE audit firms in the period from 1 May to 28 September 2015. The AFM's expectations for 2015 concern the *design* of the change and improvement measures: having a vision, a policy, procedures and descriptions. The AFM considers the formulated expectations to be ambitious, but also reasonable. A properly developed *design* of the change and improvement measures is an essential basis for adequate *operating effectiveness* in practice. The AFM will carry out further reviews that also relate to *operating effectiveness* from 2016. New expectations will be formulated for each module as the basis for the dashboard scores.

In this review, the AFM has established whether the PIE audit firms have met the expectations for 2015. The AFM's evaluation is shown in scores ranging from 1 to 5. The meaning of the five scores is shown in the table below.

¹⁴ §14, §18 and §21 Wta respectively.

Table 25. Meaning of the scores

5	A score of 5 is allocated if in the opinion of the AFM the audit firm fully meets all the relevant elements of the expectation formulated for 2015.
4	A score of 4 is allocated if in the opinion of the AFM the audit firm fully meets the majority of the relevant elements of the expectation formulated for 2015.
3	A score of 3 is allocated if in the opinion of the AFM the audit firm partly meets the majority of the relevant elements of the expectation formulated for 2015.
2	A score of 2 is allocated if in the opinion of the AFM the audit firm does not adequately meet the relevant elements of the expectation formulated for 2015.
1	A score of 1 is allocated if in the opinion of the AFM the audit firm does not meet the relevant elements of the expectation formulated for 2015.

The AFM has elaborated the above scores for each element of the seven modules in a score table. These score tables describe the five scores on the basis of the formulated expectation and the elements that can be distinguished therein. The score tables for the seven modules are given in Appendix I.

The scores allocated for the individual module elements lead to a (weighted) average score for the module as a whole. The weighting factors used are stated in the score tables. Finally, an overall score is calculated as the average of the scores at module level, with the modules *Relationship of the audit firm to its environment* (module 5) and *Network* (module 6) being assigned half the weight of the other modules due to their exploratory nature.

5.5 Measures from the report ‘In the Public Interest’

In addition to assessing the change and future-oriented improvement measures initiated against the expectations of the AFM for 2015, the AFM also established the progress made by the PIE audit firms in implementing the measures from the report ‘In the Public Interest’.

In its report ‘In the Public Interest’, the Future of the Accountancy Profession working group established by the NBA proposed 53 measures for improving the quality and independence of audits. These measures are sector-wide and the initiative for their introduction rests with various parties: the audit firms, the NBA, the legislator, the Commissie Eindtermen Accountancy (CEA), the Corporate Governance Code Monitoring Committee, the Dutch Accounting Standards Board

(RJ), the AFM, universities and institutes of higher education. The AFM included in its review the 25 measures for which the initiative for introduction lies partly or fully with the PIE audit firms.¹⁵

In the formulation of the measures, the Future of the Accountancy Profession working group acknowledged that the term in which the measures have to be implemented varies in each case. For this reason, the report 'In the Public Interest' states for each measure whether the measure relates to the short term or the medium to longer term. The NBA has further developed the phasing of the implementation of the measures. Through the Consultation Platform for Public Audit Firms ('OPAK'), the NBA has explained to the PIE audit firms its expectation as of 1 May 2015 with respect to these measures. The AFM has assessed the substance of the information it received from the PIE audit firms and established whether the organisations meet the expectations formulated by the NBA on 1 May 2015 and furthermore whether the organisations have perhaps made further progress with the implementation of these measures.

In line with the review of the expectations of the AFM for the seven modules, with respect to the measures from the report 'In the Public Interest' the AFM has also exclusively established the *design* of the measures and has not assessed the *operating effectiveness* of the measures in practice.

5.6 Conduct and reporting of the review

On 1 April 2015 the AFM wrote to the PIE audit firms explaining its review and requesting them to send it the necessary information. In its request for information, the AFM explained its objectives and expectations for each module for 2015. For each module, the request for information consisted of questions that had to be answered either 'yes' or 'no' and/or written remarks, as well as providing documentation to support the answers given.

In its request for information, the AFM made a clear distinction between the objectives and expectations of the AFM and the measures from the report 'In the Public Interest'. While the AFM's objectives and expectations for 2015 are generally principle-based, the measures from the report 'In the Public Interest' are generally very practical and detailed in their formulation and are rule-based. The AFM requested the PIE audit firm to provide documentation for each module showing the *design* (vision, policy, procedures or descriptions) of the safeguards or change measures relating to the subject of the module in question. The request for information for the measures from the report 'In the Public Interest' was more extensive and more detailed. To establish whether a PIE audit firm meets all the aspects and sub-aspects of these measures, the AFM asked for information on each of these aspects and sub-aspects. A distinction was made

¹⁵ The report 'In the Public Interest' states 26 measures for which the initiative rests with the audit firms. The AFM has not included measure 5.10 in its consideration, since in the opinion of the AFM the initiative for the formation of an independent academic research institute does not rest with the individual audit firms, it is an initiative for the sector collectively.

between the measures that the NBA expected to be implemented by 1 May 2015 and the other measures.

In response to the AFM's request for information, the PIE audit firms in the first instance provided information on the situation as at 1 May 2015. The AFM subsequently gave the PIE audit firms the opportunity to update this information at various points during the review. Ultimately the AFM's observations and conclusions were based on all the information received in the period from May to the end of September 2015.

Despite the large scale of the request for information and its coincidence with a busy time of year, the PIE audit firms provided the AFM with virtually all the information in a timely and structured manner. After an initial inventory of the information received, the AFM consulted with each of the PIE audit firms to obtain further explanation of the information provided. Based on the information provided and the oral explanations, the AFM formed an opinion with respect to the change and improvement measures at each of the PIE audit firms and expressed its opinion in scores for the various modules.

The AFM shared its initial observations and provisional conclusions orally with the PIE audit firms in the second half of August. If it emerged during these discussions that the AFM had incorrectly not included relevant existing information in its review, the organisation was then given the opportunity to submit this information. The AFM then informed each PIE audit firm of its provisional conclusions in a written firm-specific draft report in order to hear both sides of the argument and to give the organisations three weeks in which to notify it of any factual inaccuracies. After any adjustments necessary, the AFM sent a definitive firm-specific report to each PIE audit firm. The principal observations and conclusions for all nine PIE audit firms are included collectively in this generic report.

6. Appendix I: Score tables

This appendix presents for each module the objective, the request for information from the AFM of 1 April 2015 and the score tables used by the AFM in its review.

6.1 Module 1: Executive board

Objective

In the medium to longer term, the AFM wishes to be able to establish that:

- the audit firm has a professional executive board that has a vision focusing on quality;
- the audit firm has described how the objectives for the organisation established in this vision will be achieved;
- the executive board of the audit firm is 'in control'¹⁶;
- the executive board has diverse composition, it has sufficient knowledge and experience and it possesses the authority to be able to provide effective management; and
- with an effective tone at the top the executive board sets an example that contributes to a quality-oriented culture and thereby acts in the public interest.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

A quality-oriented vision

1. A document (or documents) showing:
 - 1.1. what the audit firm's quality-oriented vision is; and
 - 1.2. that the audit firm has described how the objectives for the organisation established in this vision will be achieved in practice.

In control

2. A document (or documents) showing:
 - 2.1. that the audit firm has determined how it establishes that it is in control;
 - 2.2. the areas of improvement identified by the audit firm in order to be more in control; and
 - 2.3. how the audit firm has or will obtain insight with respect to the most important key performance indicators relating to quality.

¹⁶ The definition of this term is a matter for the audit firm itself.

Arrangements for the executive board

3. A document (or documents), for instance a profile description, showing that the audit firm has defined its understanding of the following:
 - 3.1. diverse composition of the executive board;
 - 3.2. adequate time available for the executive board (both collectively and for individual members);
 - 3.3. adequate expertise of the executive board (both collectively and for individual members);
 - 3.4. adequate experience of the executive board (both collectively and for individual members); and
 - 3.5. adequate authority in order to provide effective management (both collectively and for individual members).

Role of the executive board

4. A document (or documents) showing that the audit firm has defined the role of the executive board with respect to determining the quality-oriented culture in which the public interest is given central priority.

Weight of the elements:

1. Quality-oriented vision	40%
2. In control	30%
3. Arrangements for the executive board	15%
4. Role of the executive board	15%

Score tables

I	Quality-oriented vision
5	<p>The audit firm has a quality-oriented vision that includes the public interest and in which all the following elements are adequately defined:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it considers to be ‘quality’ that includes practical details of how this is reflected in the behaviour of its employees and the culture of the organisation; • the vision includes other elements of quality in addition to compliance with legislation and regulation; • the audit firm has an idea of how the desired quality is to be achieved.
4	<p>The audit firm has a quality-oriented vision that includes the public interest and in which two of the following elements are adequately defined:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘quality’ that includes practical details of how this is reflected in the behaviour of its employees and the culture of the organisation; • the vision includes other elements of quality in addition to compliance with legislation and regulation; • the audit firm has an idea of how the desired quality is to be achieved.
3	<p>The audit firm has a quality-oriented vision that includes the public interest and in which at least two of the following elements are partially defined:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘quality’ that includes practical details of how this is reflected in the behaviour of its employees and the culture of the organisation; • the vision includes other elements of quality in addition to compliance with legislation and regulation; • the audit firm has an idea of how the desired quality is to be achieved.
2	<p>The audit firm has a quality-oriented vision that does not adequately include the public interest and in which two of the following elements are not adequately defined:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘quality’ that includes practical details of how this is reflected in the behaviour of its employees and the culture of the organisation; • the vision includes other elements of quality in addition to compliance with legislation and regulation; • the audit firm has an idea of how the desired quality is to be achieved.
1	<p>The audit firm does not have a quality-oriented vision.</p>

II	In control
5	<p>The audit firm has adequately defined all the following elements for being in control of its organisation:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘being in control’; • being in control involves other elements of business operation in addition to compliance with legislation and regulation; • the audit firm has determined indicators to measure quality; • the audit firm has insight into how it establishes that it is in control and regularly measures this, for example with regular reports to the executive board of the de audit firm.
4	<p>The audit firm has adequately defined three of the following elements for being in control of its organisation:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘being in control’; • being in control involves other elements of business operation in addition to compliance with legislation and regulation; • the audit firm has determined indicators to measure quality; • the audit firm has insight into how it establishes that it is in control and regularly measures this, for example with regular reports to the executive board of the de audit firm.
3	<p>The audit firm has partially defined at least three of the following elements for being in control of its organisation:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘being in control’; • being in control involves other elements of business operation in addition to compliance with legislation and regulation; • the audit firm has determined indicators to measure quality; • the audit firm has insight into how it establishes that it is in control and regularly measures this, for example with regular reports to the executive board of the de audit firm.
2	<p>The audit firm has not adequately defined the following elements for being in control of its organisation:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘being in control’; • being in control involves other elements of business operation in addition to compliance with legislation and regulation; • the audit firm has determined indicators to measure quality; • the audit firm has insight into how it establishes that it is in control and regularly measures this, for example with regular reports to the executive board of the de audit firm.
1	<p>The audit firm has not defined the following elements for being in control of its organisation:</p> <ul style="list-style-type: none"> • the audit firm has a description of what it understands by ‘being in control’; • being in control involves other elements of business operation in addition to compliance with legislation and regulation; • the audit firm has determined indicators to measure quality; • the audit firm has insight into how it establishes that it is in control and regularly measures this, for example with regular reports to the executive board of the de audit firm.

III	Arrangements for the executive board
5	<p>The audit firm has defined the arrangements for its executive board for all the following elements in detail and specifically for its organisation:</p> <ul style="list-style-type: none"> • diverse composition of the executive board; • adequate time for the executive board; • adequate knowledge and experience of the executive board; • sufficient authority to be able to manage effectively.
4	<p>The audit firm has defined the arrangements for its executive board for three of the following elements in detail and specifically for its organisation:</p> <ul style="list-style-type: none"> • diverse composition of the executive board; • adequate time for the executive board; • adequate knowledge and experience of the executive board; • sufficient authority to be able to manage effectively.
3	<p>The audit firm has defined the arrangements for its executive board for at least three of the following elements in general terms and not specifically for its organisation:</p> <ul style="list-style-type: none"> • diverse composition of the executive board; • adequate time for the executive board; • adequate knowledge and experience of the executive board; • sufficient authority to be able to manage effectively.
2	<p>The audit firm has not adequately defined the arrangements for its executive board for the following elements:</p> <ul style="list-style-type: none"> • diverse composition of the executive board; • adequate time for the executive board; • adequate knowledge and experience of the executive board; • sufficient authority to be able to manage effectively.
1	<p>The audit firm has not defined the arrangements for its executive board for the following elements:</p> <ul style="list-style-type: none"> • diverse composition of the executive board; • adequate time for the executive board; • adequate knowledge and experience of the executive board; • sufficient authority to be able to manage effectively.

IV	Role of the executive board
5	<p>The audit firm has described the role of the executive board, with adequate definition of all the following elements:</p> <ul style="list-style-type: none"> • how the executive board expresses the quality-oriented culture with its tone at the top, and for instance in its communication; • how the board expresses the quality-oriented culture with its behaviour; • how the audit firm has insight into how it establishes that the effectiveness of its tone at the top and its behaviour and measures this regularly.
4	<p>The audit firm has described the role of the executive board, with adequate definition of two of the following elements:</p> <ul style="list-style-type: none"> • how the executive board expresses the quality-oriented culture with its tone at the top, and for instance in its communication; • how the board expresses the quality-oriented culture with its behaviour; • how the audit firm has insight into how it establishes that the effectiveness of its tone at the top and its behaviour and measures this regularly.
3	<p>The audit firm has described the role of the executive board, with partial definition of at least two of the following elements:</p> <ul style="list-style-type: none"> • how the executive board expresses the quality-oriented culture with its tone at the top, and for instance in its communication; • how the board expresses the quality-oriented culture with its behaviour; • how the audit firm has insight into how it establishes that the effectiveness of its tone at the top and its behaviour and measures this regularly.
2	<p>The audit firm has described the role of the executive board, with inadequate definition of the following elements:</p> <ul style="list-style-type: none"> • how the executive board expresses the quality-oriented culture with its tone at the top, and for instance in its communication; • how the board expresses the quality-oriented culture with its behaviour; • how the audit firm has insight into how it establishes that the effectiveness of its tone at the top and its behaviour and measures this regularly.
1	<p>The audit firm has not described the role of the executive board with respect to its quality-oriented culture.</p>

6.2 Module 2: Quality-oriented culture

Objective

In the medium to longer term, the AFM wishes to be able to establish that:

- the audit firm has a quality-oriented culture, in other words, a culture with a continuous central priority of statutory audits performed with good quality and taking account of the public interest, as required by the public duty of the audit firm, with respect to other interests, including commercial interests; and
- the quality-oriented culture of the audit firm is expressed in its mission, vision, strategy, core values and working practices and their application in practice.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

Quality-oriented culture

1. A document (or documents) showing that the audit firm has defined what a quality-oriented culture means for its organisation and that it devotes attention to at least the following:
 - 1.1. the tone at the top that is appropriate to the mission, vision, strategy and core values of the audit firm and that to some extent determines the quality-oriented culture;
 - 1.2. the relationship between quality-oriented and compliance-oriented, with the understanding that quality-oriented entails more than compliance-oriented;
 - 1.3. intensive cooperation (within the audit team and outside it, for example with professional colleagues, experts or other auditors) in the performance of statutory audits that contributes to giving central priority to the public interest and the conduct of high quality statutory audits; and
 - 1.4. the way in which the audit firm formulates its organisation's ability to learn, in other words, how the audit firm ensures that it actively learns from both its successes and failures, in the interest of continuous quality and quality improvement.

Culture review

2. A document (or documents) showing that the audit firm has defined how it reviews if and to what extent the culture in its organisation is currently a quality-oriented culture.

Contribution of policy on evaluation, remuneration, promotion and sanctions to a quality-oriented culture

3. A document (or documents) showing how the audit firm's current policy on evaluation, remuneration, promotion and sanctions contribute as a whole to its quality-oriented culture.

4. The sanctions policy of the audit firm, which concerns at least the following:
 - 4.1. the right incentives for statutory auditors and employees in the audit practice to perform good quality audits with central priority given to the public interest; and
 - 4.2. the perception among statutory auditors and employees in the audit practice that it is sufficiently likely that inadequate quality and/or infringements by the audit firm will be identified and sanctioned and that the sanctions imposed will be adequately severe.

Weight of the elements

1. Quality-oriented culture	50%
2. Culture review	30%
3. Contribution of policy on evaluation, remuneration, promotion and sanctions to a quality-oriented culture	20%

Score tables

I	Quality-oriented culture
5	<p>The audit firm has described its quality-oriented culture, with adequate definition of all the following elements:</p> <ul style="list-style-type: none"> a. the tone at the top that is appropriate to the mission, vision, strategy and core values of the audit firm and that in part determines the quality-oriented culture; b. the culture focuses on other elements of quality in addition to compliance with legislation and regulation; c. how it wishes to give form to the cooperation¹⁷ that is involved in the performance of statutory audits; and d. how it gives form to the firm's ability to learn.
4	<p>The audit firm has described its quality-oriented culture, with adequate definition of three of the following elements:</p> <ul style="list-style-type: none"> a. the tone at the top that is appropriate to the mission, vision, strategy and core values of the audit firm and that in part determines the quality-oriented culture; b. the culture focuses on other elements of quality in addition to compliance with legislation and regulation; c. how it wishes to give form to the cooperation that is involved in the performance of statutory audits; and d. how it gives form to the firm's ability to learn.
3	<p>The audit firm has described its quality-oriented culture, with partial definition of at least three of the following elements:</p> <ul style="list-style-type: none"> a. the tone at the top that is appropriate to the mission, vision, strategy and core values of the audit firm and that in part determines the quality-oriented culture; b. the culture focuses on other elements of quality in addition to compliance with legislation and regulation; c. how it wishes to give form to the cooperation that is involved in the performance of statutory audits; and d. how it gives form to the firm's ability to learn.
2	<p>The audit firm has described its quality-oriented culture, with inadequate definition of the following elements:</p> <ul style="list-style-type: none"> a. the tone at the top that is appropriate to the mission, vision, strategy and core values of the audit firm and that in part determines the quality-oriented culture; b. the culture focuses on other elements of quality in addition to compliance with legislation and regulation; c. how it wishes to give form to the cooperation that is involved in the performance of statutory audits; and d. how it gives form to the firm's ability to learn.
1	<p>The audit firm has not described its quality-oriented culture, or has not defined the following elements:</p> <ul style="list-style-type: none"> a. the tone at the top that is appropriate to the mission, vision, strategy and core values of the audit firm and that in part determines the quality-oriented culture; b. the culture focuses on other elements of quality in addition to compliance with legislation and regulation; c. how it wishes to give form to the cooperation that is involved as standard in the performance of statutory audits; and d. how it gives form to the firm's ability to learn.

¹⁷ Cooperation here refers to cooperation within the audit team and outside it with for example professional colleagues, experts or other auditors.

II	Culture review
5	<p>The audit firm has a plan to review or has recently reviewed whether and the extent to which the culture in its organisation is currently a quality-oriented culture. All the following elements have been defined in this respect:</p> <ul style="list-style-type: none"> • the culture review encompasses a representative sample of each layer in the organisation, also including the network elements; • the audit firm has engaged external or internal experts to conduct the culture review; • the questions posed are adequately focused on measuring the extent to which the culture is quality-oriented; • the culture review includes other instruments besides written questionnaires for measuring the culture (as visible in behaviour).
4	<p>The audit firm has a plan to review or has recently reviewed whether and the extent to which the culture in its organisation is currently a quality-oriented culture. Three of the following elements have been defined in this respect:</p> <ul style="list-style-type: none"> • the culture review encompasses a representative sample of each layer in the organisation, also including the network elements; • the audit firm has engaged external or internal experts to conduct the culture review; • the questions posed are adequately focused on measuring the extent to which the culture is quality-oriented; • the culture review includes other instruments besides written questionnaires for measuring the culture (as visible in behaviour).
3	<p>The audit firm has a plan to review or has recently reviewed whether and the extent to which the culture in its organisation is currently a quality-oriented culture. At least three of the following elements have been partially defined in this respect:</p> <ul style="list-style-type: none"> • the culture review encompasses a representative sample of each layer in the organisation, also including the network elements; • the audit firm has engaged external or internal experts to conduct the culture review; • the questions posed are adequately focused on measuring the extent to which the culture is quality-oriented; • the culture review includes other instruments besides written questionnaires for measuring the culture (as visible in behaviour).
2	<p>The audit firm has a plan to review or has recently reviewed whether and the extent to which the culture in its organisation is currently a quality-oriented culture. The following elements have not been adequately defined in this respect:</p> <ul style="list-style-type: none"> • the culture review encompasses a representative sample of each layer in the organisation, also including the network elements; • the audit firm has engaged external or internal experts to conduct the culture review; • the questions posed are adequately focused on measuring the extent to which the culture is quality-oriented; • the culture review includes other instruments besides written questionnaires for measuring the culture (as visible in behaviour).
1	<p>The audit firm has no plan to review whether and the extent to which the culture in its organisation is currently a quality-oriented culture. The audit firm has also not recently carried out such a review.</p>

III	Contribution of policy on evaluation, remuneration, promotion and sanctions to a quality-oriented culture
5	<p>The audit firm has a policy on evaluation, remuneration, promotion and sanctions in which all the following elements are adequately defined and mutually consistent:</p> <ul style="list-style-type: none"> • an evaluation policy in which quality is the decisive factor; • a remuneration policy in which quality is the decisive factor for the receipt of a variable remuneration and/or bonus; • a promotion policy in which quality is the decisive factor; • a sanctions policy that contains the right incentives to promote a quality-oriented culture.
4	<p>The audit firm has a policy on evaluation, remuneration, promotion and sanctions in which three of the following elements are adequately defined and mutually consistent:</p> <ul style="list-style-type: none"> • an evaluation policy in which quality is the decisive factor; • a remuneration policy in which quality is the decisive factor for the receipt of a variable remuneration and/or bonus; • a promotion policy in which quality is the decisive factor; • a sanctions policy that contains the right incentives to promote a quality-oriented culture.
3	<p>The audit firm has a policy on evaluation, remuneration, promotion and sanctions in which at least three of the following elements are partially defined and at least two of the following elements are defined so as to be mutually consistent:</p> <ul style="list-style-type: none"> • an evaluation policy in which quality is the decisive factor; • a remuneration policy in which quality is the decisive factor for the receipt of a variable remuneration and/or bonus; • a promotion policy in which quality is the decisive factor; • a sanctions policy that contains the right incentives to promote a quality-oriented culture.
2	<p>The audit firm has a policy on evaluation, remuneration, promotion and sanctions in which the following elements are not adequately defined:</p> <ul style="list-style-type: none"> • an evaluation policy in which quality is the decisive factor; • a remuneration policy in which quality is the decisive factor for the receipt of a variable remuneration and/or bonus; • a promotion policy in which quality is the decisive factor; • a sanctions policy that contains the right incentives to promote a quality-oriented culture.
1	<p>The audit firm has a policy on evaluation, remuneration, promotion and sanctions in which the following elements are not defined:</p> <ul style="list-style-type: none"> • an evaluation policy in which quality is the decisive factor; • a remuneration policy in which quality is the decisive factor for the receipt of a variable remuneration and/or bonus; • a promotion policy in which quality is the decisive factor; • a sanctions policy that contains the right incentives to promote a quality-oriented culture.

6.3 Module 3: System of quality control and monitoring

Objective

In the medium to longer term, the AFM wishes to be able to establish that the audit firm has a system of quality control that:

- consists of procedures, descriptions and standards that enable statutory auditors to carry out their work to the highest possible standard and thereby ensure the quality of statutory audits;
- is formulated on the basis of a thorough analysis of quality-enhancing and quality-reducing factors;
- is effective in the use of identified quality-enhancing factors and mitigation of quality-reducing factors;
- relates to the acceptance and continuation of audit engagements, the provision of the necessary time, resources (including standards and possibilities for consultation) and personnel (including knowledge, competences and experience), the conduct of engagement quality control reviews (EQCRs) and the monitoring of the required level of quality; and
- is observed as such and leads to all those concerned (including employees, executive board, supervisory board (SB), delegated service providers and network elements) behaving so that continuing central priority is given to statutory audits being performed with high quality and taking account of the public interest. The audit firm oversees this observance and behaviour and regularly evaluates the effectiveness of its system, taking account of its previous analysis of quality-enhancing and quality-reducing factors.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

Knowledge

1. A document (or documents) showing how the audit firm ensures that:
 - 1.1. the knowledge and competences of statutory auditors and other employees meet the statutory quality level and that they give central priority to the public interest in the conduct of statutory audits;
 - 1.2. it is aware of the level of knowledge and competences of its statutory auditors and other employees and where potential gaps exist that need to be addressed; and
 - 1.3. its statutory auditors and other employees update the knowledge and competences relevant to them in good time and further develop their knowledge and competences where necessary.

Root cause analysis

2. A document (or documents) showing how the audit firm has determined:
 - 2.1. that it conducts a root cause analysis as soon as it establishes that the quality level achieved is not sufficient;
 - 2.2. how it conducts this root cause analysis; and

2.3.who conducts this root cause analysis.

Weight of the elements:

1. Knowledge 50%
2. Root cause analysis 50%

Score tables

I	Knowledge
5	<p>The audit firm has a document (such as a curriculum or training plan) in which all the following elements are adequately elaborated for auditors and employees at both collective and individual level:</p> <ul style="list-style-type: none"> • the audit firm has determined what the desired competences (both knowledge and skills) are for its statutory auditors and employees; • the desired competences focus on other elements of quality, such as the public interest, in addition to compliance with legislation and regulation; • the audit firm has insight into the competences available (both knowledge and skills) of its statutory auditors and other employees on the basis of information from various sources (such as an internal quality review); • on the basis of its insight into the available competences (both knowledge and skills) of its statutory auditors and other employees, the audit firm has a plan for making available a continuing appropriate process or programme to supplement, update or expand these competences.
4	<p>The audit firm has a document (such as a curriculum or training plan) in which at least three of the following elements are adequately elaborated for auditors and employees:</p> <ul style="list-style-type: none"> • the audit firm has determined what the desired competences (both knowledge and skills) are for its statutory auditors and employees; • the desired competences focus on other elements of quality, such as the public interest, in addition to compliance with legislation and regulation; • the audit firm has insight into the competences available (both knowledge and skills) of its statutory auditors and other employees on the basis of information from various sources (such as an internal quality review); • on the basis of its insight into the available competences (both knowledge and skills) of its statutory auditors and other employees, the audit firm has a plan for making available a continuing appropriate process or programme to supplement, update or expand these competences.

3	<p>The audit firm has a document (such as a curriculum or training plan) in which at least three of the following elements are partially elaborated for auditors and employees:</p> <ul style="list-style-type: none"> • the audit firm has determined what the desired competences (both knowledge and skills) are for its statutory auditors and employees; • the desired competences focus on other elements of quality, such as the public interest, in addition to compliance with legislation and regulation; • the audit firm has insight into the competences available (both knowledge and skills) of its statutory auditors and other employees on the basis of information from various sources (such as an internal quality review); • on the basis of its insight into the available competences (both knowledge and skills) of its statutory auditors and other employees, the audit firm has a plan for making available a continuing appropriate process or programme to supplement, update or expand these competences.
2	<p>The audit firm has a document (such as a curriculum or training plan) in which the following elements are not adequately elaborated for auditors and employees:</p> <ul style="list-style-type: none"> • the audit firm has determined what the desired competences (both knowledge and skills) are for its statutory auditors and employees; • the desired competences focus on other elements of quality, such as the public interest, in addition to compliance with legislation and regulation; • the audit firm has insight into the competences available (both knowledge and skills) of its statutory auditors and other employees on the basis of information from various sources (such as an internal quality review); • on the basis of its insight into the available competences (both knowledge and skills) of its statutory auditors and other employees, the audit firm has a plan for making available a continuing appropriate process or programme to supplement, update or expand these competences.
1	<p>The audit firm has no document (such as a curriculum or training plan) in which the following elements are elaborated:</p> <ul style="list-style-type: none"> • the audit firm has determined what the desired competences (both knowledge and skills) are for its statutory auditors and employees; • the desired competences focus on other elements of quality, such as the public interest, in addition to compliance with legislation and regulation; • the audit firm has insight into the competences available (both knowledge and skills) of its statutory auditors and other employees on the basis of information from various sources (such as an internal quality review); • on the basis of its insight into the available competences (both knowledge and skills) of its statutory auditors and other employees, the audit firm has a plan for making available a continuing appropriate process or programme to supplement, update or expand these competences.

II	Root cause analysis
5	<p>The audit firm has a document in which it describes the conduct of root cause analyses as part of its system of quality control in which all the following elements are adequately elaborated:</p> <ul style="list-style-type: none"> • the audit firm conducts root cause analyses on the basis of various signals (including for instance consultations and any other sources besides internal and external reviews) and includes both statutory audits for which quality is less than satisfactory and statutory audits for which quality is satisfactory; • the root cause analyses focus on both the individual statutory auditor and aspects relating to the whole organisation; • the audit firm has a plan that describes the persons responsible for carrying out root cause analyses and the methodologies to be used, whereby practical tools (apparatus and methodologies) are employed for an in-depth root cause analysis; • the audit firm has determined that root cause analyses are carried out by an expert person with sufficient seniority and support within the organisation who is not employed in the department responsible for the system of quality control or its design (usually the professional practice department).
4	<p>The audit firm has a document in which it describes the conduct of root cause analyses as part of its system of quality control in which three of the following elements are adequately elaborated:</p> <ul style="list-style-type: none"> • the audit firm conducts root cause analyses on the basis of various signals (including for instance consultations and any other sources besides internal and external reviews) and includes both statutory audits for which quality is less than satisfactory and statutory audits for which quality is satisfactory; • the root cause analyses focus on both the individual statutory auditor and aspects relating to the whole organisation; • the audit firm has a plan that describes the persons responsible for carrying out root cause analyses and the methodologies to be used, whereby practical tools (apparatus and methodologies) are employed for an in-depth root cause analysis; • the audit firm has determined that root cause analyses are carried out by an expert person with sufficient seniority and support within the organisation who is not employed in the department responsible for the system of quality control or its design (usually the professional practice department).
3	<p>The audit firm has a document in which it describes the conduct of root cause analyses as part of its system of quality control in which at least three of the following elements are partially elaborated:</p> <ul style="list-style-type: none"> • the audit firm conducts root cause analyses on the basis of various signals (including for instance consultations and any other sources besides internal and external reviews) and includes both statutory audits for which quality is less than satisfactory and statutory audits for which quality is satisfactory; • the root cause analyses focus on both the individual statutory auditor and aspects relating to the whole organisation; • the audit firm has a plan that describes the persons responsible for carrying out root cause analyses and the methodologies to be used, whereby practical tools (apparatus and methodologies) are employed for an in-depth root cause analysis; • the audit firm has determined that root cause analyses are carried out by an expert person with sufficient seniority and support within the organisation who is not employed in the department responsible for the system of quality control or its design (usually the professional practice department).

2	<p>The audit firm has a document in which it describes the conduct of root cause analyses as part of its system of quality control in which the following elements are not adequately elaborated:</p> <ul style="list-style-type: none"> • the audit firm conducts root cause analyses on the basis of various signals (including for instance consultations and any other sources besides internal and external reviews) and includes both statutory audits for which quality is less than satisfactory and statutory audits for which quality is satisfactory; • the root cause analyses focus on both the individual statutory auditor and aspects relating to the whole organisation; • the audit firm has a plan that describes the persons responsible for carrying out root cause analyses and the methodologies to be used, whereby practical tools (apparatus and methodologies) are employed for an in-depth root cause analysis; • the audit firm has determined that root cause analyses are carried out by an expert person with sufficient seniority and support within the organisation who is not employed in the department responsible for the system of quality control or its design (usually the professional practice department).
1	<p>The audit firm does not have a document in which it describes the conduct of root cause analyses as part of its system of quality control.</p>

6.4 Module 4: Internal supervision

Objective

In the medium to longer term, the AFM wishes to be able to establish that the audit firm has an internal supervisory body at principal holding company level that:

- possesses sufficient powers, knowledge and skills to call the executive board to account regarding its duty to meet public expectations with respect to continually giving central priority to the public interest in statutory audits that are performed with good quality;
- takes account of the various stakeholders and public aspects of the audit firm;
- sets an example with an effective tone at the top that contributes to a quality-oriented culture; and
- has a quality-oriented vision, sufficient authority, knowledge and experience and is composed of members who are independent of the audit firm and its audit clients.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

Powers of the internal supervisory body

1. A document (or documents) (such as the description of duties) showing that the audit firm has established the powers of the internal supervisory body.

Authority, time, knowledge and experience of the internal supervisory body

2. A document or documents, for instance a profile description or description of duties, showing that the audit firm has defined its understanding of the following:
 - 2.1.adequate authority of the internal supervisory body (both collectively and for individual members);
 - 2.2.adequate time for the internal supervisory body (both collectively and for individual members);
 - 2.3.adequate knowledge of the internal supervisory body (both collectively and for individual members); and
 - 2.4.adequate experience of the internal supervisory body (both collectively and for individual members).

Independence of the internal supervisory body

3. A document (or documents) showing that the provisions for the independence of the audit firm apply, to the extent relevant, to the members of the internal supervisory body.

Weight of the elements:

- | | |
|---|-----|
| 1. Powers of the internal supervisory body | 40% |
| 2. Authority, time, knowledge and experience of the internal supervisory body | 40% |
| 3. Independence of the internal supervisory body | 20% |

Score tables

I	Powers of the internal supervisory body
5	<p>The audit firm has a document in which the powers of the internal supervisory are established in draft or final form in order for it to effectively supervise the activities of the organisation's executive board, in which the following powers are elaborated in detail and specifically for the firm concerned:</p> <ul style="list-style-type: none"> • the making of a binding nomination for the appointment of members of the executive board of the Dutch holding company that can only be rejected by the shareholders with a qualified majority; • the approval of the appointment and dismissal of partners in the audit practice; • approval of the quality policy and safeguards; • approval of the remuneration policy for executive board members, partners and employees and determination of the remuneration for the board members of the Dutch principal holding company; • approval of the appointment and evaluation of the compliance officer; • the power to demand any information from the executive board and the statutory auditor that the SB needs in order to properly exercise its duties as a supervisory body. If the SB considers it advisable, it may obtain information from officers and external advisers of the company. the company makes the resources needed for this available. The SB may require certain officers and external advisers to attend its meetings.
4	<p>The audit firm has a document in which the powers of the internal supervisory are established in draft or final form in order for it to effectively supervise the activities of the organisation's executive board, in which five of the following powers are elaborated:</p> <ul style="list-style-type: none"> • the making of a binding nomination for the appointment of members of the executive board of the Dutch holding company that can only be rejected by the shareholders with a qualified majority; • the approval of the appointment and dismissal of partners in the audit practice; • approval of the quality policy and safeguards; • approval of the remuneration policy for executive board members, partners and employees and determination of the remuneration for the board members of the Dutch principal holding company; • approval of the appointment and evaluation of the compliance officer; • the power to demand any information from the executive board and the statutory auditor that the SB needs in order to properly exercise its duties as a supervisory body. If the SB considers it advisable, it may obtain information from officers and external advisers of the company. The company makes the resources needed for this available. The SB may require certain officers and external advisers to attend its meetings; <p>or in which the above powers are elaborated in general terms and not specifically for the firm in question.</p>

3	<p>The audit firm has a document in which the powers of the internal supervisory are established in draft or final form in order for it to effectively supervise the activities of the organisation's executive board, in which three or four of the following powers are elaborated:</p> <ul style="list-style-type: none"> • the making of a binding nomination for the appointment of members of the executive board of the Dutch holding company that can only be rejected by the shareholders with a qualified majority; • the approval of the appointment and dismissal of partners in the audit practice; • approval of the quality policy and safeguards; • approval of the remuneration policy for executive board members, partners and employees and determination of the remuneration for the board members of the Dutch principal holding company; • approval of the appointment and evaluation of the compliance officer; • the power to demand any information from the executive board and the statutory auditor that the SB needs in order to properly exercise its duties as a supervisory body. If the SB considers it advisable, it may obtain information from officers and external advisers of the company. the company makes the resources needed for this available. The SB may require certain officers and external advisers to attend its meetings.
2	<p>The audit firm has a document in which the powers of the internal supervisory are established in draft or final form in order for it to effectively supervise the activities of the organisation's executive board, in which one or two of the following powers are elaborated:</p> <ul style="list-style-type: none"> • the making of a binding nomination for the appointment of members of the executive board of the Dutch holding company that can only be rejected by the shareholders with a qualified majority; • the approval of the appointment and dismissal of partners in the audit practice; • approval of the quality policy and safeguards; • approval of the remuneration policy for executive board members, partners and employees and determination of the remuneration for the board members of the Dutch principal holding company; • approval of the appointment and evaluation of the compliance officer; • the power to demand any information from the executive board and the statutory auditor that the SB needs in order to properly exercise its duties as a supervisory body. If the SB considers it advisable, it may obtain information from officers and external advisers of the company. the company makes the resources needed for this available. The SB may require certain officers and external advisers to attend its meetings.
1	<p>The audit firm does not have a document in which the powers of the internal supervisory are established in draft or final form in order for it to effectively supervise the activities of the organisation's executive board.</p>

II	Authority, time, knowledge and experience of the internal supervisory body
5	<p>The audit firm has defined what it understands with reference to the arrangements for its internal supervisory body for all the following elements in detail and specifically for its organisation:</p> <ul style="list-style-type: none"> • sufficient time for the internal supervisory body and its members; • sufficient knowledge and experience of the internal supervisory body and its members; • sufficient authority of the internal supervisory body and its members.
4	<p>The audit firm has defined what it understands with reference to the arrangements for its internal supervisory body for two of the following elements in detail and specifically for its organisation:</p> <ul style="list-style-type: none"> • sufficient time for the internal supervisory body and its members; • sufficient knowledge and experience of the internal supervisory body and its members; • sufficient authority of the internal supervisory body and its members.
3	<p>The audit firm has defined what it understands with reference to the arrangements for its internal supervisory body for at least two of the following elements generally and not specifically for its organisation:</p> <ul style="list-style-type: none"> • sufficient time for the internal supervisory body and its members; • sufficient knowledge and experience of the internal supervisory body and its members; • sufficient authority of the internal supervisory body and its members.
2	<p>The audit firm has not adequately defined the arrangements for its internal supervisory body for the following elements:</p> <ul style="list-style-type: none"> • sufficient time for the internal supervisory body and its members; • sufficient knowledge and experience of the internal supervisory body and its members; • sufficient authority of the internal supervisory body and its members.
1	<p>The audit firm has not defined the arrangements for its internal supervisory body for the following elements:</p> <ul style="list-style-type: none"> • sufficient time for the internal supervisory body and its members; • sufficient knowledge and experience of the internal supervisory body and its members; • sufficient authority of the internal supervisory body and its members.

III	Independence of the internal supervisory body
5	<p>The audit firm has a document (for instance, a policy document) stating that the following provisions apply to the members of its internal supervisory body in detail and specifically for its organisation:</p> <ul style="list-style-type: none"> • the members must be independent of the audit firm, in line with provisions in the Dutch Corporate Governance Code; • the members must be independent from (certain) audit clients of the audit firm and that these provisions: <ul style="list-style-type: none"> ○ are in line with the provisions of the Regulation on the independence of auditors in assurance engagements (ViO) for example; ○ include an elaboration of the various potential interests and relationships (including matters such as the receipt of gifts and hospitality, financial interests, commercial relationships, working relationships, close personal relationships and legal proceedings).
4	<p>The audit firm has a document (for instance, a policy document) stating that the following provisions apply to the members of its internal supervisory body in detail and specifically for its organisation:</p> <ul style="list-style-type: none"> • they must be independent of the audit firm, in line with provisions in the Dutch Corporate Governance Code; • they must be independent from (certain) audit clients of the audit firm and that these provisions: <ul style="list-style-type: none"> ○ are in line with the provisions of (for instance) the Regulation on the independence of auditors in assurance engagements (ViO); ○ include an elaboration of some of the potential interests and relationships (including matters such as the receipt of gifts and hospitality, financial interests, commercial relationships, working relationships, close personal relationships and legal proceedings).
3	<p>The audit firm has a document (for instance, a policy document) stating that the following provisions apply to the members of its internal supervisory body generally and not specifically for its organisation:</p> <ul style="list-style-type: none"> • they must be independent of the audit firm, in line with provisions in the Dutch Corporate Governance Code; • they must be independent from (certain) audit clients of the audit firm and that these provisions: <ul style="list-style-type: none"> ○ refer in general terms to the provisions of (for instance) the Regulation on the independence of auditors in assurance engagements (ViO); ○ do not include an elaboration of the various potential interests and relationships (including matters such as the receipt of gifts and hospitality, financial interests, commercial relationships, working relationships, close personal relationships and legal proceedings).
2	<p>The audit firm has a document (for instance, a policy document) stating in general terms and not specifically for its organisation that the members of its internal supervisory body have to be independent of the audit firm, in line with the provisions of the Dutch Corporate Governance Code.</p> <p>The audit firm has not determined that the members of its internal supervisory body have to be independent from (certain) audit clients of the audit firm.</p>
1	<p>The audit firm has no document (such as a policy document) stating that the independence of the members of its internal supervisory body is assured.</p>

6.5 Module 5: Relationship of the audit firm to its environment

Objective

In the medium to longer term, the AFM wishes to be able to establish that:

- the audit firm and the auditor are independent in the relationships maintained with the client, the company to which the financial reporting relates and the user of the auditor's opinion, so that the auditor expresses an objective opinion in his auditor's opinion;
- the audit firm and the 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 competition with respect to quality can occur between audit firms; and
- the auditor is transparent regarding any irregularities he encounters in the conduct of the statutory audit and that are relevant to the public interest.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

Transparency of the statutory auditor;

1. A document (or documents) showing the policy of the audit firm with respect to the transparency provided by statutory auditors regarding the statutory audits they perform and the irregularities they encounter:
 - 1.1.in their expanded audit opinion;
 - 1.2.during the general meeting of shareholders of the audit client; and
 - 1.3.in other communication.

Advising the audit client.

2. A document (or documents) showing the policy of the audit firm regarding the information that the statutory auditors give to the SB, and in particular the audit committee, of the audit client regarding the findings of reviews of the quality of their statutory audits.

Transparency of the audit firm.

3. A document (or documents) showing the policy of the audit firm with respect to the transparency provided by the audit firm regarding how it performs statutory audits and the quality of its audits:
 - 3.1.in its transparency report; and/or
 - 3.2.in its annual report; and/or
 - 3.3.in other communication (for instance regarding reports of fraud and incidents).

Score table

5	<p>The audit firm has adequately elaborated all the following elements with respect to its transparency to its stakeholders regarding how it performs statutory audits and the quality it delivers:</p> <ul style="list-style-type: none"> • the audit firm has a policy including the principles it applies in its transparency towards its stakeholders; • the audit firm has identified other parties in society as relevant stakeholders in addition to its audit clients; • the transparency of the audit firm relates to both issues arising from legislation and regulation and other elements of quality; • the audit firm has practical instructions (procedures, standards descriptions) that statutory auditors and other employees can use with respect to the transparency they provide in for instance the expanded auditor’s opinion or to the general meeting of shareholders, the SB and/or the audit committee of the audit client.
4	<p>The audit firm has adequately elaborated three of the following elements with respect to its transparency to its stakeholders regarding how it performs statutory audits and the quality it delivers:</p> <ul style="list-style-type: none"> • the audit firm has a policy including the principles it applies in its transparency towards its stakeholders; • the audit firm has identified other parties in society as relevant stakeholders in addition to its audit clients; • the transparency of the audit firm relates to both issues arising from legislation and regulation and other elements of quality; • the audit firm has practical instructions (procedures, standards descriptions) that statutory auditors and other employees can use with respect to the transparency they provide in for instance the expanded auditor’s opinion or to the general meeting of shareholders, the SB and/or the audit committee of the audit client.
3	<p>The audit firm has partially elaborated at least three of the following elements with respect to its transparency to its stakeholders regarding how it performs statutory audits and the quality it delivers:</p> <ul style="list-style-type: none"> • the audit firm has a policy including the principles it applies in its transparency towards its stakeholders; • the audit firm has identified other parties in society as relevant stakeholders in addition to its audit clients; • the transparency of the audit firm relates to both issues arising from legislation and regulation and other elements of quality; • the audit firm has practical instructions (procedures, standards descriptions) that statutory auditors and other employees can use with respect to the transparency they provide in for instance the expanded auditor’s opinion or to the general meeting of shareholders, the SB and/or the audit committee of the audit client.

2	<p>The audit firm has not adequately elaborated the following elements with respect to its transparency to its stakeholders regarding how it performs statutory audits and the quality it delivers:</p> <ul style="list-style-type: none"> • the audit firm has a policy including the principles it applies in its transparency towards its stakeholders; • the audit firm has identified other parties in society as relevant stakeholders in addition to its audit clients; • the transparency of the audit firm relates to both issues arising from legislation and regulation and other elements of quality; • the audit firm has practical instructions (procedures, standards descriptions) that statutory auditors and other employees can use with respect to the transparency they provide in for instance the expanded auditor’s opinion or to the general meeting of shareholders, the SB and/or the audit committee of the audit client.
1	<p>The audit firm has not elaborated the following elements with respect to its transparency to its stakeholders regarding how it performs statutory audits and the quality it delivers:</p> <ul style="list-style-type: none"> • the audit firm has a policy including the principles it applies in its transparency towards its stakeholders; • the audit firm has identified other parties in society as relevant stakeholders in addition to its audit clients; • the transparency of the audit firm relates to both issues arising from legislation and regulation and other elements of quality; • the audit firm has practical instructions (procedures, standards descriptions) that statutory auditors and other employees can use with respect to the transparency they provide in for instance the expanded auditor’s opinion or to the general meeting of shareholders, the SB and/or the audit committee of the audit client.

6.6 Module 6: Network

Objective

In the medium to longer term, the AFM wishes to be able to establish that:

- the audit firm has insight into the quality-enhancing and quality-reducing factors for statutory audits that are associated with operating within a national and international network;
- the audit firm has insight into the factors that affect the independence of the audit firm as a result of operating within a national and international network;
- the audit firm has taken adequate measures to limit quality-reducing factors and use 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.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

The national network

1. A document (or documents) showing that the audit firm has identified and analysed the quality-enhancing and quality-reducing factors associated with the national network that could influence its statutory audits. This document (or documents) shows that the audit firm has devoted attention to at least the following:
 - 1.1. agreements with respect to:
 - 1.1.1. growth and profit targets;
 - 1.1.2. profit-sharing; and
 - 1.1.3. investments with parts of the network.
 - 1.2. the effect of the cooperation within the network on compliance with legislation and regulation, for example legislation and regulation with regard to the separation of audit and advisory services to PIE audit clients.

The international network

2. A document (or documents) showing that the audit firm has identified and analysed the quality-enhancing and quality-reducing factors associated with the international network that could influence its statutory audits. This document (or documents) shows that the audit firm has devoted attention to at least the following:
 - 2.1. how working practices in the Netherlands are influenced by the international network; and
 - 2.2. how the internationally developed standards that are implemented in the Netherlands affect the quality of statutory audits.

Weight of the elements

1. The national network 60%
2. The international network 40%

Score tables

I	The national network
5	The audit firm has identified and analysed both factors that have a quality-enhancing effect and factors that have a quality-reducing effect on statutory audits that are associated with operating as part of a national network. The audit firm has devoted detailed attention to both the positive and negative aspects of agreements regarding growth and profit targets, profit-sharing and investments (including investments in quality) and the effect on compliance with legislation and regulation, for example with regard to the separation of audit and advisory services provided to PIE audit clients that are associated with operating as part of a national network.
4	The audit firm has identified and analysed factors that either have a quality-enhancing effect or have a quality-reducing effect on statutory audits that are associated with operating as part of a national network. The audit firm has devoted detailed attention to either the positive or the negative aspects of agreements regarding growth and profit targets, profit-sharing and investments (including investments in quality) and the effect on compliance with legislation and regulation, for example with regard to the separation of audit and advisory services provided to PIE audit clients that are associated with operating as part of a national network.
3	The audit firm has to some extent identified and analysed both factors that have a quality-enhancing effect and factors that have a quality-reducing effect on statutory audits that are associated with operating as part of a national network. The audit firm has devoted general attention to both the positive and negative aspects of agreements regarding growth and profit targets, profit-sharing and investments (including investments in quality) and the effect on compliance with legislation and regulation, for example with regard to the separation of audit and advisory services provided to PIE audit clients that are associated with operating as part of a national network.
2	The audit firm has not adequately identified and analysed the factors that have a quality-enhancing effect or a quality-reducing effect on statutory audits that are associated with operating as part of a national network. The audit firm has not devoted adequate attention to the positive or the negative aspects of agreements regarding growth and profit targets, profit-sharing and investments (including investments in quality) and the effect on compliance with legislation and regulation, for example with regard to the separation of audit and advisory services provided to PIE audit clients that are associated with operating as part of a national network.
1	The audit firm has not identified or analysed the quality-enhancing or the quality-reducing factors that could affect statutory audits that are associated with operating as part of a national network.

II	The international network
5	The audit firm has identified and analysed both factors that have a quality-enhancing effect on statutory audits and factors that have a quality-reducing effect that are associated with operating as part of an international network. The audit firm has devoted detailed attention to both the positive and negative effects of the international network on working practices in the Netherlands.
4	The audit firm has identified and analysed factors that either have a quality-enhancing effect or have a quality-reducing effect on statutory audits that are associated with operating as part of an international network. The audit firm has devoted detailed attention to either the positive or the negative effects of the international network on working practices in the Netherlands.
3	The audit firm has to some extent identified and analysed both factors that have a quality-enhancing effect and factors that have a quality-reducing effect on statutory audits that are associated with operating as part of an international network. The audit firm has devoted general attention to both the positive and negative effects of the international network on working practices in the Netherlands.
2	The audit firm has not adequately identified and analysed factors that have a quality-enhancing effect or have a quality-reducing effect on statutory audits that are associated with operating as part of an international network. The audit firm has not devoted adequate attention to the positive or the negative effects of the international network on working practices in the Netherlands.
1	The audit firm has not identified or analysed the quality-enhancing or the quality-reducing factors that could affect statutory audits that are associated with the international network.

6.7 Module 7: Change

Objective

In the medium to longer term, the AFM wishes to be able to establish that:

- the audit firm has established its own definition of the objective of change (the desired situation) partly on the basis of a root cause analysis;
- the audit firm has a proper vision of change that describes the reason for change, what has to change, who is involved, and when and where the change needs to occur in a consistent and balanced way in order for there to be a reasonable expectation that the desired situation will be reached; and
- the audit firm monitors and evaluates at the right times whether it is acting in accordance with the vision of change by checking whether it is doing the right things to arrive at the desired situation.

Request for information 1 April 2015

In order to establish whether the PIE audit firm meets the expectation for 2015, the AFM requested the following information.

Deeper root cause analysis

1. A description of the deeper causes that positively or negatively affect the quality of statutory audits. This should involve attention to at least the following:
 - 1.1. the various layers within the audit firm, namely the executive board, the statutory auditors and other employees, the internal supervision, the system of quality control, the network and the environment; and
 - 1.2. the following issues: governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn.

Result of the change

2. A description of the ultimate result of the change that addresses the following questions. Include in your answer at least the various layers within the audit firm and the issues of governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn.
 - 2.1. What does your organisation wish to achieve, what is the destination?
 - 2.2. What are the assumed results or effects of the change process?

Change vision

3. A description of the change vision in the form of answers to the following questions:
 - 3.1. What is the shared need, urgency of or reason for change? And what is the perceived problem?
 - 3.2. What needs to change? Your answer should address at least the issues of governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn. State also – if possible – how the change relates to the results of the root cause analysis.

- 3.3. Who has to change, and why? What exactly are the changes they need to make (for example, in behaviour, opinions, standards and values)? And how is your organisation supporting this? Include in your answer at least the various layers within the audit firm, namely the executive board, the statutory auditors and other employees, the internal supervision, the system of quality control, the network and the environment.
- 3.4. How do you wish to reach the desired situation? In your answer, state the actions your organisation is taking in order to reach the desired situation, what has priority and what does not. State also who is or will be involved in this process, what their roles are and the reasons for this.
- 3.5. How long should the change last, and why? What is the timeline for the change? When are the initial results and effects expected? Are there specific deadlines? If there is no timeline, state the intended changes and the dates when you wish to achieve them. (Is there for instance a sequence of interventions necessary for implementation) What pace of change do you expect to be able to achieve and why?

Weight of the elements

- | | |
|--|-----|
| 1. Deeper root cause analysis | 50% |
| 2. Result of the change and the vision of change | 50% |

Score tables

I	Deeper root cause analysis
5	<p>The audit firm can state the deeper causes that affect the quality of statutory audits on the basis of an analysis that fully meets all the following features:</p> <ul style="list-style-type: none"> • the analysis has been the starting point for the change vision; • the analysis included both causes that positively affect quality and causes that negatively affect quality; • the analysis had a sufficiently broad scope and integrality by involving both various layers of the audit firm (statutory auditors and other employees, executive board, internal supervision, quality control system, the network and the environment) and various issues (governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn in the analysis); • the analysis was carried out with sufficient depth.
4	<p>The audit firm can state the deeper causes that affect the quality of statutory audits on the basis of an analysis that fully meets three of the following features:</p> <ul style="list-style-type: none"> • the analysis has been the starting point for the change vision; • the analysis included both causes that positively affect quality and causes that negatively affect quality; • the analysis had a sufficiently broad scope and integrality by involving both various layers of the audit firm (statutory auditors and other employees, executive board, internal supervision, quality control system, the network and the environment) and various issues (governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn in the analysis); • the analysis was carried out with sufficient depth.
3	<p>The audit firm can state the deeper causes that affect the quality of statutory audits on the basis of an analysis that partially meets three of the following features:</p> <ul style="list-style-type: none"> • the analysis has been the starting point for the change vision; • the analysis included both causes that positively affect quality and causes that negatively affect quality; • the analysis had a sufficiently broad scope and integrality by involving both various layers of the audit firm (statutory auditors and other employees, executive board, internal supervision, quality control system, the network and the environment) and various issues (governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn in the analysis); • the analysis was carried out with sufficient depth.

2	<p>The audit firm can state the deeper causes that affect the quality of statutory audits on the basis of an analysis that does not adequately meet the following features:</p> <ul style="list-style-type: none"> • the analysis has been the starting point for the change vision; • the analysis included both causes that positively affect quality and causes that negatively affect quality; • the analysis had a sufficiently broad scope and integrality by involving both various layers of the audit firm (statutory auditors and other employees, executive board, internal supervision, quality control system, the network and the environment) and various issues (governance, quality-oriented culture, statutory level of quality, transparency with respect to quality and the ability to learn in the analysis); • the analysis was carried out with sufficient depth.
1	<p>The audit firm is not able to list the deeper causes affecting the quality of statutory audits.</p>

II	Result of the change and the vision of change
5	<p>The audit firm has a change vision in which all the following points are adequately elaborated:</p> <ul style="list-style-type: none"> • a clear description of the change destination; • the assumed effects of the change process associated with the description of the change destination; • a consistent¹⁸ answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?; • a balanced¹⁹ answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?; •
4	<p>The audit firm has a change vision in which three of the following points are adequately elaborated:</p> <ul style="list-style-type: none"> • a clear description of the change destination; • the assumed effects of the change process associated with the description of the change destination; • a consistent answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?; • a balanced answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?;
3	<p>The audit firm has a change vision in which at least three of the following points are partially elaborated:</p> <ul style="list-style-type: none"> • a clear description of the change destination; • the assumed effects of the change process associated with the description of the change destination; • a consistent answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?; • a balanced answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?;
2	<p>The audit firm has a change vision in which the following points are not adequately elaborated:</p> <ul style="list-style-type: none"> • a clear description of the change destination; • the assumed effects of the change process associated with the description of the change destination; • a consistent answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for

¹⁸ Consistent. The change vision as a whole is credible. This concerns the connection between the various elements of the change vision and their logical cohesion. A consistent change vision has a logical internal cohesion, an appropriate approach and the right or logical people who will make a contribution.

¹⁹ Balanced. This means that all the elements of the change vision are formulated with sufficient substance (in other words, not only focusing on what has to change and when, for example). Balanced also means that there is sufficient attention to the present (where is the audit firm today?), the past (where is the audit firm coming from (including root cause analysis)?) and the future (where does the audit firm wish to go, and where will it go?), as well as to the process, the substance and the people in the argumentation. Each of these dimensions is important.

	<p>there to be a reasonable expectation that the desired situation will be reached?;</p> <ul style="list-style-type: none"> • a balanced answer to all questions: what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached?;
1	<p>The audit firm does not have a description of its change destination and the assumed effects of the change process. The audit firm does not have a change vision: the questions (what has to change, how does it have to change, who has to change and where and when do changes have to take place in order for there to be a reasonable expectation that the desired situation will be reached) are not answered.</p>

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