



## Sector in view

### Market analysis of audit firms 2010 - 2014

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# 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.

## **Disclaimer**

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|     |   |    |
|-----|---|----|
| 1.  | Introduction  | 4  |
| 2.  | Summary   | 6  |
| 3.  | General market data on licensees  | 8  |
| 3.1 | Thirteen per cent decline in the number of licensed audit firms   | 8  |
| 3.2 | The number of statutory audits is stable, with a six per cent increase in market share of statutory audits by non-PIE audit firms | 10 |
| 3.3 | Increase in client change ratio with nine per cent first effect of audit firm rotation for PIE audits and increased competition   | 13 |
| 3.4 | Marginal increase in average number of statutory audits per statutory auditor   | 14 |
| 3.5 | More diversification in client portfolio of audit firms by number of sectors  | 16 |
| 3.6 | Number of 'clean' unqualified audit opinions is stable  | 18 |
| 4.  | Revenue and fee development   | 20 |
| 4.1 | Revenue of non-PIE audit firms up 10 per cent due to increased market share   | 20 |
| 4.2 | Pressure on fees is visible for statutory audits at the Big 4 audit firms after a period of fee increases                         | 22 |
| 5.  | System for quality control and controlled and sound business operations   | 24 |
| 5.1 | Quality monitoring at PIE audit firms is relatively less frequent than at non-PIE audit firms                                     | 24 |
| 5.2 | In percentage terms, PIE audit firms register fewer infringements than non-PIE audit firms  | 26 |
| 5.3 | Number of audit firms finding suspicions of fraud at audit clients has doubled  | 29 |
| 5.4 | Number of audit firms faced with judicial proceedings and complaints increases  | 30 |
|     | Appendix I: Glossary  | 33 |
|     | Appendix II: Aggregated results from the AFM Monitor 2013 and 2014  | 35 |

# 1. Introduction

## **Market analysis based on the AFM Audit Firms Monitor**

In its report 'Sector in View', the Netherlands Authority for the Financial Markets (AFM) presents an analysis of the market for audit firms over the period from 2010 to 2014. This report makes use of a selection of the findings from the AFM Audit Firms Monitor ('the Monitor') that the AFM considers to be relevant information with respect to audit firms and the market in which they operate.<sup>1 2</sup> The AFM has also listed the trends and items of attention for the market.

The Monitor is one of the supervisory instruments used by the AFM to carry out its continuous supervision of audit firms. The Monitor contains information provided by all licensed audit firms each year to the AFM about themselves and their statutory audits in the most recently completed financial year. The AFM uses this information for its supervision of the audit firms. The audit firms thereby contribute to the objectives of the legislation and regulations. The AFM uses this information to obtain knowledge regarding individual audit firms, but also regarding all licensed audit firms collectively. Based on this knowledge, the AFM can apply its other supervisory instruments as effectively as possible. We wish to note that this Monitor is a different publication than that dealing with the progress made in the improvement plans of the PIE audit firms, such as the Monitor 'Public Interest' by the Netherlands Institute of Chartered Accountants (NBA)<sup>3</sup> and the 2015 dashboard Change and Improvement Measures of the AFM.<sup>4</sup>

## **The Monitor contains delayed market information**

The AFM requests audit firms to complete the Monitor in November or December each year. The AFM notes that unless otherwise stated, the findings of the Monitor relate to the most recently completed financial year for the audit firms. Many audit firms have a financial year that is the same as the calendar year, however a few use a non-calendar financial year. This means that the information in the Monitor on the most recently completed financial year does not concern the same time period for all audit firms. The information provided by the audit firms on the statutory audits of financial statements relates to the preceding financial year for the audit clients. This means that with respect to the information on statutory audits, the Monitor findings are delayed by around two years. When the findings shown do not relate to the most recently completed

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<sup>1</sup> For this report, the AFM has in some instances made use of information from public sources, including the public register on the AFM website, as well as annual reports and transparency reports from licensed audit firms. Information from public sources is used when the data from the Monitor are incomplete, for example because some of the licensed audit firms have not provided the information in question, or if the information from public sources better reflects developments in the market.

<sup>2</sup> The Monitor was published for the first time in 2009. The Monitor findings in 2009 are incomplete, since this was the first year of publication. We have accordingly decided to leave the 2009 Monitor findings out of consideration.

<sup>3</sup> See Report by the NBA working group on the future of the accountancy profession [NBA Monitor 'In the Public Interest'](#).

<sup>4</sup> The AFM expects to publish this dashboard in mid-October 2015.

financial year of the audit firms, but to a different period, tables and figures carry the following caption “ | *no delayed information* | ”.

### **Future developments**

Under European Regulation no. 537/2014, from 2016 the AFM has to prepare a report on developments in the accountancy market at least every three years, in particular regarding the provision of statutory audit services to public interest entities (PIEs) and sectors in which firms are active.<sup>5</sup> To meet this obligation, the AFM will continue to request information from audit firms via the Monitor and publish similar reports on market developments on a regular basis.

### **Distinction between licensed audit firms**

Where possible, this report distinguishes between audit firms holding a licence to perform statutory audits of both public interest entities and other organisations (PIE audit firms) and audit firms licensed to perform statutory audits of organisations that are not PIEs (non-PIE audit firms). Among the PIE audit firms, a further distinction is usually made between the Big 4 audit firms and other PIE audit firms. These distinctions, between PIE and non-PIE audit firms and between the Big 4 firms and other PIE audit firms, make it easier for audit firms and the market to make comparisons with other similar audit firms.

### **Structure of this report**

The contents of this report are arranged as follows: Section 2 gives a summary of the report with the major trends. Section 3 describes a number of trends based on general market data on licensed audit firms. Section 4 describes the trends in relation to the development of revenue and fees at audit firms. In conclusion, Section 5 lists the trends relating to the system of quality control and controlled and ethical business operation. The appendices to this report concern a glossary (Appendix I) and a table with the aggregate findings of the Monitors for 2013 and 2014 (Appendix II).

It was decided to include only the aggregate findings of the Monitors of 2013 and 2014 in Appendix II, since reports have already been published regarding the findings in previous years (findings of Monitors 2010 and 2011) or the findings do not show any material differences from the findings in 2013 and 2014 and therefore are of limited additional value (findings of Monitor 2012).

*The figures presented are based on information provided by the audit firms to the AFM. The Monitor must be completed in full, accurately and truthfully. If the AFM specifically requests this, an audit firm must be able to substantiate the answers it gave with data or documentation at a later date. The AFM has not analysed the information provided to verify that it is reliable. The AFM cannot therefore make any statement regarding the accuracy of the data provided.*

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<sup>5</sup>See Articles 14 and 27 of Regulation no. 537/2014.

## 2. Summary

The AFM requests audit firms licensed to perform statutory audits to complete the Monitor each year. In the Monitor, audit firms provide information to the AFM that is relevant to the effective and efficient performance of its supervisory duties. In the information from the Monitor between 2010 and 2014, the AFM observes various trends in the market for audit firms. The AFM wishes to draw particular attention to five notable trends:

### **1. Thirteen per cent decline in the number of licensed audit firms**

Over five years, the number of licensed audit firms has declined gradually from 475 to 413. This decline is due to several causes. Firstly, the number of requests to cancel licences held by audit firms that do not perform statutory audits has increased. The AFM has been given the power to cancel a licence if a firm has not carried out a statutory audit in the preceding three years. A number of licences have also lapsed as a result of mergers and acquisitions between licensed audit firms. Lastly, several non-PIE audit firms assessed in 2013 as part of the AFM's thematic review of non-PIE audit firms<sup>6</sup> have requested the AFM to withdraw their licence, either at the AFM's insistence or on their own initiative. Against this decline in the number of existing licensed audit firms, a limited number of licenses have either been applied for or granted. The AFM expects the number of registered audit firms that do not carry out statutory audits to decline even further in future.

### **2. Quality monitoring at PIE audit firms relatively less frequent than at non-PIE audit firms**

The AFM notes that the percentage of statutory audits at non-PIE audit clients for which PIE audit firms conduct an engagement quality control review (EQCR) has increased from 9.2 per cent in 2012 to 15.8 per cent in 2014. This percentage is significantly lower than the percentage for non-PIE audit firms (from 33.8 per cent in 2012 to 27.5 per cent in 2014). Since the working group set up by the Netherlands Institute of Chartered Accountants (NBA) on the future of the accountancy profession proposed an increase in the number of EQCRs, the AFM expects to see an increase in the percentage of statutory audits subjected to an EQCR.

The AFM notes that while non-PIE audit firms conducted an internal quality monitoring of 13.5 per cent of their statutory audits in 2014, for the PIE firms this figure was 1.9 per cent. The AFM expects audit firms to carry out more internal quality monitoring as a result of increased pressure on the quality of statutory audits.

### **3. Number of audit firms finding suspicions of fraud at audit clients has doubled**

The AFM notes that the number of audit firms finding reasonable suspicion of fraud at audit clients has doubled: from 16 in 2010 to 31 in 2014. Within this figure, an increase can be observed

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<sup>6</sup> See '[Thematic review of non-PIE audit firms - Part I: NBA firms](#)' (11 July 2013) and '[Thematic review of non-PIE audit firms - Part II: SRA firms](#)' (26 November 2013).

in the percentage of audit firms finding reasonable suspicion of fraud that was adequately followed up: from 4.3 per cent in 2010 to 8.2 per cent in 2014. No report was made to the Financial Supervision Office (BFT), since the fraud was adequately followed up. The percentage of audit firms reporting instances of fraud to the BFT because the audit client had not adequately followed up the identified fraud has risen slightly from 1.3 per cent in 2010 to 1.8 per cent in 2014. Under new European regulation, from mid-2016 PIE audit firms will be obliged not only to report cases of fraud that have not been adequately followed up, they must also report other irregularities<sup>7</sup> that have not been adequately followed up by a PIE audit client. The AFM accordingly expects to see an increase in the number of reports of such irregularities at PIE audit clients in future.

#### **4. Six per cent increase in market share of statutory audits by non-PIE audit firms**

The percentage of statutory audits conducted by non-PIE audit firms has gradually increased from 28 per cent in 2010 to 34 per cent in 2014. This increase in the market share of the non-PIE audit firms is mainly at the expense of the market share of the Big 4 audit firms, which has declined from 56 per cent in 2010 to 52 per cent in 2014. The increase in the market share of the non-PIE audit firms is firstly because PIE audit firms are parting company with more risky audit clients, for instance where there is intense fee pressure or the internal control environment is limited in scope. These audit clients are also approaching non-PIE firms. The AFM therefore expects to see non-PIE audit firms performing more statutory audits in the coming years. The AFM sees conducting these statutory audits with adequate quality as a challenge for the non-PIE firms. The increase in the market share of the non-PIE audit firms is also due to other PIE audit firms having their licence changed into a non-PIE licence.

#### **5. Price pressure visible for statutory PIE audits by Big 4 audit firms after period of rising prices**

The average fee for a PIE audit performed by the Big 4 audit firms has risen from €106,000 to €161,000 between 2010 and 2013, with revenue remaining stable. In the Monitor for the period 2013-2014, the AFM sees a decline in the average fee for a statutory PIE audit to €139,000. There has also been extensive publicity in various media that the average fee for a statutory PIE audit declined in 2014-2015.<sup>8</sup> This may be due to aggressive quotations made by audit firms as a result of increased competition. In some cases, the review of the scope of the audit has also played a role. Many PIE audit clients changed their audit firm last year, in anticipation of the mandatory audit firm rotation that will apply in the Netherlands from 1 January 2016. The first effects of audit firm rotation may already be visible. The increase in competition is a welcome development. At the same time, this must not threaten the investment in quality that the audit firms need to make. The AFM will continue to monitor the development of average PIE audit fees over the coming years.

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<sup>7</sup> These other irregularities may concern the content of the financial reporting, but also may relate to other legal infringements by the PIE identified by the auditor during the audit of the financial reporting.

<sup>8</sup> See also the article [‘Vier gevolgen van de verplichte stoelendans voor accountants’](#) NRC, 6 July 2014.

### 3. General market data on licensees

Based on the general market data in the Monitor, the AFM notes the following trends:

- Thirteen per cent decline in the number of licensed audit firms (§ 3.1)
- The number of statutory audits is stable, with a six per cent increase in market share of statutory audits by non-PIE audit firms (§ 3.2)
- Increase in client change ratio with a nine per cent first effect of audit firm rotation for PIE audits and increased competition (§ 3.3)
- Marginal increase in average number of statutory audits per statutory auditor (§ 3.4)
- More diversification in client portfolios of audit firms by number of sectors (§ 3.5)
- Number of 'clean' unqualified audit opinions is stable (§ 3.6)

#### 3.1 Thirteen per cent decline in the number of licensed audit firms

Audit firms may only perform statutory audits if they hold a licence to do so under the Audit Firms (Supervision) Act (Wta).<sup>9</sup> The AFM grants licences to audit firms meeting the set criteria. Figure 1 shows the development of the number of licensed firms on the basis of data from the AFM's public register. The AFM sees a gradual decline in the number of licensed audit firms, which amounts to 13 thirteen per cent.

The number of PIE audit firms has declined by 27 per cent over five years, from 15 organisations in 2010 to 11 in 2014. Some PIE audit firms that do not (or no longer) perform PIE audits have had their licence changed to a non-PIE licence. As at 1 January 2015, the number of PIE audit firms had declined further to 10. Among non-PIE audit firms, there has been a decline of approximately 13 per cent, from 460 organisations in 2010 to 402 on 31 December 2014.

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<sup>9</sup> Section 5 and Section 6 Wta.



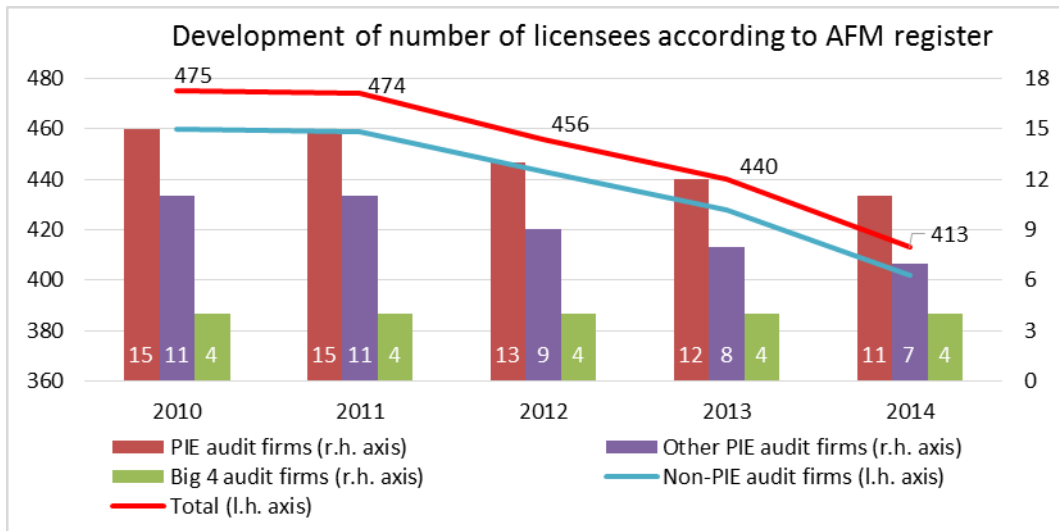


Figure 1: Development of the number of licensed audit firms as at 31 December of a year based on the public register of the AFM. | no delayed information – data as at 31 December of a year |

The declining trend in the number of non-PIE audit firms has various potential or actual causes:

- The number of requests to cancel licences held by audit firms that do not perform statutory audits has increased. This is visible in the decline in the number of non-PIE audit firms that do not perform statutory audits (see figure 3).
- A number of licences have also lapsed as a result of mergers and acquisitions between licensed audit firms.<sup>10</sup>
- Several non-PIE audit firms assessed in 2013 as part of the AFM’s thematic review of non-PIE audit firms<sup>11</sup> requested the AFM to withdraw their licence, either at the AFM’s insistence or on their own initiative.

Against this decline in the number of existing licensed audit firms, a limited number of licences have been applied for and granted.

The Minister of Finance is proposing to designate additional categories of organisations as PIE.<sup>12</sup> A number of institutions falling into these additional categories are currently audited by non-PIE audit firms. It may be that a number of non-PIE audit firms will wish to change their licence to a PIE licence in order to maintain their audit client portfolio, as a result of which the expansion of the definition of PIE is expected to lead to an increase in the number of licensed PIE audit firms.

<sup>10</sup> Under Section 7 Wta a licence is not transferable, and under Section 9 Wta the licence shall lapse if the audit firm to which the licence has been granted ceases to exist.

<sup>11</sup> See ‘[Thematic review of non-PIE audit firms - Part I: NBA firms](#)’ (11 July 2013) and ‘[Thematic review of non-PIE audit firms - Part II: SRA firms](#)’ (26 November 2013).

<sup>12</sup> See [letter from the Minister of Finance to the House of Representatives, 26 juni 2015, reference number FM/2015/707 M](#) (not available in English).

### 3.2 The number of statutory audits is stable, with a six per cent increase in market share of statutory audits by non-PIE audit firms

The AFM is charged with the supervision of audit firms that perform statutory audits. The AFM accordingly considers it important to know the number of statutory audits being performed and how these are distributed in the market. A statutory audit is an audit of the financial reporting of an enterprise or institution (the audit client) prepared for public use.<sup>13</sup> In figure 2, firstly the left-hand axis shows the total number of statutory audits conducted in the Netherlands, rounded to the nearest hundred. The figure shows that the total number of statutory audits over the past five years has fluctuated around 21,500. After declining to 20,900 in 2013, the total number of statutory audits rose to 21,800 in 2014.

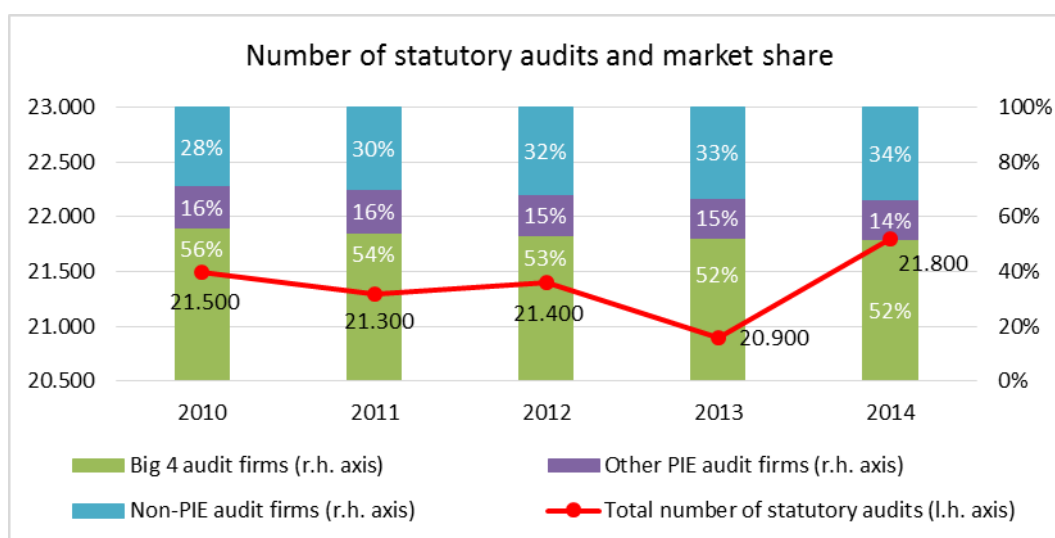


Figure 2: The red line shows the total number of statutory audits according to the most recently completed financial year for the audit firms, rounded to the nearest hundred (left-hand axis). The bar charts show the market share in percentages of the audit firm categories each year (right-hand axis).

The number of statutory audits in the Monitor shows the total number of statutory audits that audit clients have had conducted by audit firms in a particular financial year with approximately a two-year delay.<sup>14</sup> The vast majority of the statutory audits are audits of financial statements pursuant to Section 393 (1) of Book 2 of the Dutch Civil Code (Section 2:393 BW). Pursuant to Section 2:396 BW, these statutory audits do not apply to legal entities designated as ‘small’.<sup>15</sup> Given the above-mentioned approximate two-year delay in the figures, the decline in the number of statutory audits in the Monitors from 2010 to 2013 suggests that some audit clients contracted

<sup>13</sup> Section 1 (1) at (p) Wta.

<sup>14</sup> See the introduction to this report for an explanation of the delay of information.

<sup>15</sup> Pursuant to Section 2:396 (7) BW, Section 2:393 (1) BW concerning audits does not apply to a legal entity that has met two or three of the following criteria for two successive balance sheet dates:

- The value of the assets according to the balance sheet with notes, on the basis of the cost of acquisition and production, does not exceed €4,400,000;
- The net revenue in the financial year does not exceed €8,800,000;
- The average number of employees in the financial year is less than 50.

in size between 2008 and 2011 and thus qualified as 'small' instead of 'medium-sized'. Since the number of statutory audits in the Monitor for 2014 has returned to the old level, we suspect that this relates to the start of the economic recovery in the 2012 financial year.

Figure 2 also shows the percentages of the statutory audits performed by the Big 4, other PIE and non-PIE audit firms, or: the market shares of the various categories of audit firms of the total number of statutory audits conducted. The percentage of statutory audits conducted by non-PIE audit firms has gradually increased (from 28 per cent in 2010 to 34 per cent in 2014). This increase in the market share of the non-PIE audit firms is mainly at the expense of the market share of the Big 4 audit firms (from 56 per cent in 2010 to 52 per cent in 2014). The percentage of statutory audits performed by the other PIE audit firms has remained stable year on year at around 15 per cent, despite the decline in the number of other PIE audit firms. The market share of the Big 4 audit firms has declined from 56 per cent in 2010 to 52 per cent in 2014. Since in 2014 as well more than half of the number of statutory audits were performed by the four largest audit firms, the AFM takes the view that the market qualifies as 'concentrated'. The PIE audit firms are resigning from their more risky audit clients, either due to intense fee pressure or limitations with respect to the internal control environment. These audit clients are also approaching non-PIE firms. The AFM accordingly expects to see non-PIE audit firms conducting more statutory audits in the coming years, and therefore that they will be charging more fees to audit clients. The AFM sees conducting these statutory audits with adequate quality as a challenge for the non-PIE firms.

Based on data from the Monitor, Figure 3 shows the segmentation of the number of audit firms to the number of statutory audits that they have performed.<sup>16</sup> The data from the audit firms that completed the Monitor show that around 80 per cent of the non-PIE audit firms perform 20 statutory audits or less per year. The 33 non-PIE audit firms that stated in 2014 that they had performed more than 50 statutory audits in the most recently completed financial year performed on average 109 statutory audits in 2014 (in 2010 this average was 92 statutory audits). As shown in Figure 3, the number of non-PIE audit firms that did not perform any statutory audits between 2010 and 2014 has declined steadily by approximately 45 per cent from 97 in 2010 to 52 in 2014.

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<sup>16</sup> The AFM notes that there are differences between the number of licensees according to the AFM's public register as at 31 December of a year and the number of audit firms that have completed the Monitor each year. Licenses may have been granted or withdrawn between the date on which audit firms complete the Monitor during the year and the number of licensed audit firms as at 31 December.

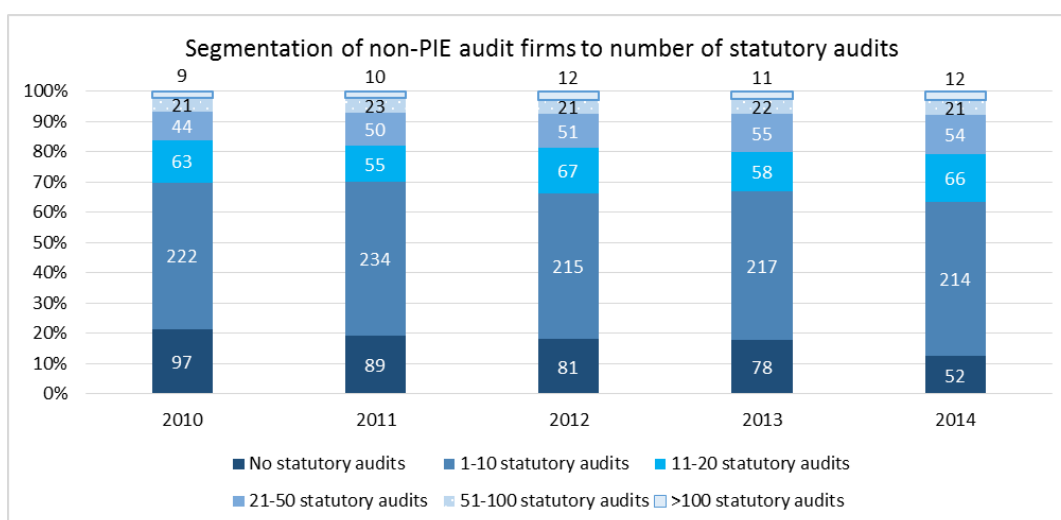


Figure 3: Segmentation of non-PIE audit firms to the stated number of statutory audits performed from the most recently completed financial year for the audit firms.

As of 1 January 2014, the AFM was given the authority to set conditions and limitations to a licence or to change, withdraw or limit the licence if the licensee has not made use of the licence for a period of 36 months.<sup>17</sup> On the basis of this authority, in 2015 the AFM wrote to the licensed audit firms that according to the information in the Monitor had not performed any statutory audits to enquire whether they had indeed not performed any statutory audits in the preceding three years and whether they proposed to perform statutory audits in the near future. This led to several audit firms submitting a request to have their licence withdrawn. The number of non-PIE audit firms that do not perform statutory audits is therefore expected to decline further from 2015.

As a result of the decline in the number of licensed audit firms and the virtually stable total number of statutory audits, the average number of statutory audits per audit firm has generally increased to some extent. Table 1 shows the average number of statutory audits per audit firm for the various categories of audit firms and for all audit firms collectively.

| Average number of statutory audits | 2010  | 2011  | 2012  | 2013  | 2014  |
|------------------------------------|-------|-------|-------|-------|-------|
| · Average Big 4 audit firms        | 3,012 | 2,887 | 2,853 | 2,743 | 2,812 |
| · Average other PIE audit firms    | 305   | 306   | 352   | 379   | 450   |
| Average PIE audit firms            | 1,027 | 994   | 1,121 | 1,167 | 1,309 |
| Average non-PIE audit firms        | 13    | 14    | 15    | 16    | 18    |
| Average total audit firms          | 46    | 45    | 47    | 46    | 51    |

Table 1: Average number of statutory audits for the most recently completed financial year of the audit firms per audit firm category.

The AFM expects this decline in the number of licensees to continue in the coming years.

<sup>17</sup> Section 10 (g) Wta.

### 3.3 Increase in client change ratio with nine per cent first effect of audit firm rotation for PIE audits and increased competition

The passing of the Accountancy Profession Act (Wab) on 11 December 2012 included the approval of two amendments that led to changes to the Wta. With effect from 1 January 2016, an audit firm may not perform the statutory audit of a PIE for more than 10 years.<sup>18</sup> In its transparency report, a PIE audit firm must include a list of all the PIEs for which it has conducted statutory audits in the previous financial year.<sup>19</sup> These transparency reports thus show which PIEs have changed the firm performing the statutory audit of their financial reporting. Since audit firms have to report the number of new statutory audits to the AFM, the AFM receives information on audit firm rotation for PIE audits.<sup>20 21</sup>

The results of the Monitor over the past five years show that the PIE audit firms have performed approximately 1,100 statutory audits of PIE audit clients in their most recently completed financial year. In figure 4, the red line shows the client change ratio for PIE audit firms for statutory audits of PIE audit clients.<sup>22</sup> As shown in figure 4, this client change ratio has risen steadily from 4 per cent in 2010 to 13 per cent in 2014. Between 2013 and 2014, the client change ratio for PIE audits increased from 7 to 13 per cent. This increase in the number of changes of audit firms is also noted by the AFM in the lists of PIE audit clients that are included in the 2013/2014 transparency reports by the PIE audit firms. This could be due to the fact that several PIE audit clients have changed their audit firm after the adoption of the change in the law on 11 December 2012 and in anticipation of this taking effect.

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<sup>18</sup> With effect from 1 January 2016, a mandatory audit firm rotation applies with respect to statutory audits of PIEs. This is established in a new subsection c to Section 23 Wta:

“The audit firm shall not perform a statutory audit of a public interest entity if it, with respect to this organisation:

[...]

c. during a period of four years following a consecutive period of ten years in which the audit firm has performed the statutory audits or has provided or structured a significant part of the financial administration.”

<sup>19</sup> Section 30 (1) at (g) Wta.

<sup>20</sup> If an entity moves to a different audit firm for the statutory audit of its financial information or has to have a statutory audit of its financial information conducted for the first time, this is treated as a new statutory audit for the audit firm conducting the statutory audit.

<sup>21</sup> Since 1 January 2013, PIEs are obliged under Section 2:393 (1) BW to inform the AFM regarding which auditor or audit firm they propose to engage for the audit of their financial statements.

<sup>22</sup> The client change ratio shows the number of new statutory audits compared to the total number of statutory audits as a percentage for the category of audit firm concerned. In this case the client change ratio for PIE audit firms shows the percentage of new statutory audits of PIE audit clients.

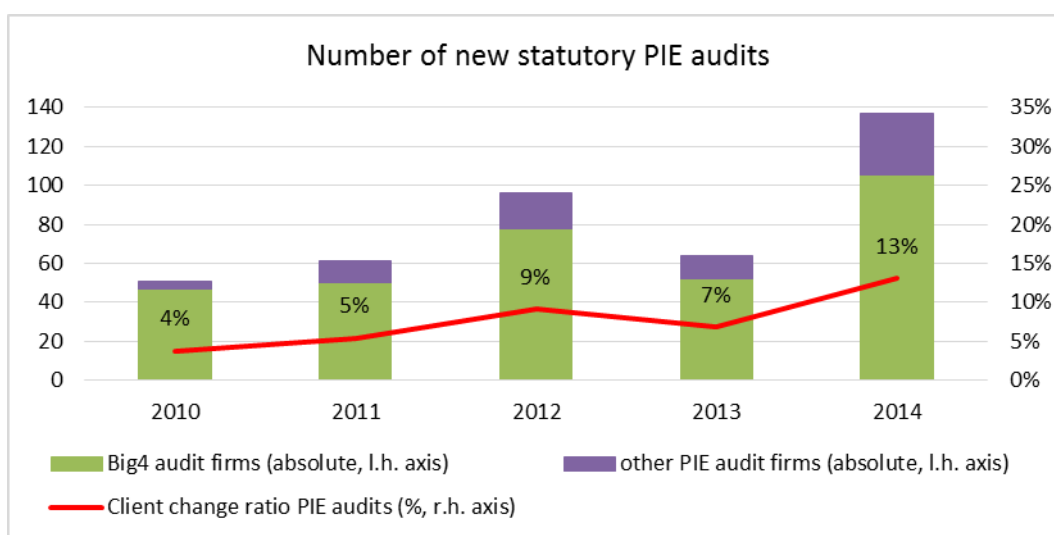


Figure 4: Absolute number of new statutory PIE audits by the Big 4 and other audit firms (bar charts in left-hand axis) and the client change ratio in percentages of the total number of statutory PIE audits by all PIE audit firms (red line, right-hand axis) in the most recently completely financial year for the audit firms.

The AFM expects the client change ratio at the PIE audit firms with respect to PIEs to increase further as a result of the mandatory audit firm rotation.

### 3.4 Marginal increase in average number of statutory audits per statutory auditor

A statutory auditor is the natural person who is employed by or affiliated to an audit firm and is responsible for the performance of a statutory audit.<sup>23</sup> An audit firm must ensure that the necessary time, resources and personnel are made available to the statutory auditor so that he can perform his task appropriately.<sup>24</sup>

The number of statutory performing statutory audits has declined by just under 15 per cent from 2,322 at year-end 2010 to 1,978 at year-end 2014 (see also the decline in figure 1).<sup>25</sup> Around 60 per cent of these statutory auditors perform audits on behalf of non-PIE audit firms, while the other 40 per cent do so on behalf of PIE audit firms. The calculated average number of audit reports issued per statutory auditor gives insight into the span of control of the statutory auditor in the statutory audits performed under his responsibility. At total level, the average number of audit reports issued per statutory auditor has increased in the past five years: from an average of 9.3 to an average of 11.0 statutory audits.

Figure 5 shows the average number of statutory audits performed by the statutory auditors working for the Big 4, the other PIE and the non-PIE audit firms per year. The number of statutory

<sup>23</sup> Section 1 (1) at (f) Wta.

<sup>24</sup> Section 15 of the [Audit Firms Supervision Decree](#) (Besluit toezicht accountantsorganisaties, Bta).

<sup>25</sup> An external auditor may be affiliated to more than one audit firm and may therefore perform statutory audits for multiple audit firms. The number of external auditors thus includes duplication and does not therefore reflect the number of individual external auditors entered in the public register on the AFM website.

audits per statutory auditor at the Big 4 audit firms has remained stable over the past five years at approximately 20 statutory audits. The other PIE audit firms on the other hand show an increase of 60 per cent to 16 statutory audits in 2014 (2010: 11). The average revenue per statutory auditor has also increased over the past five years.

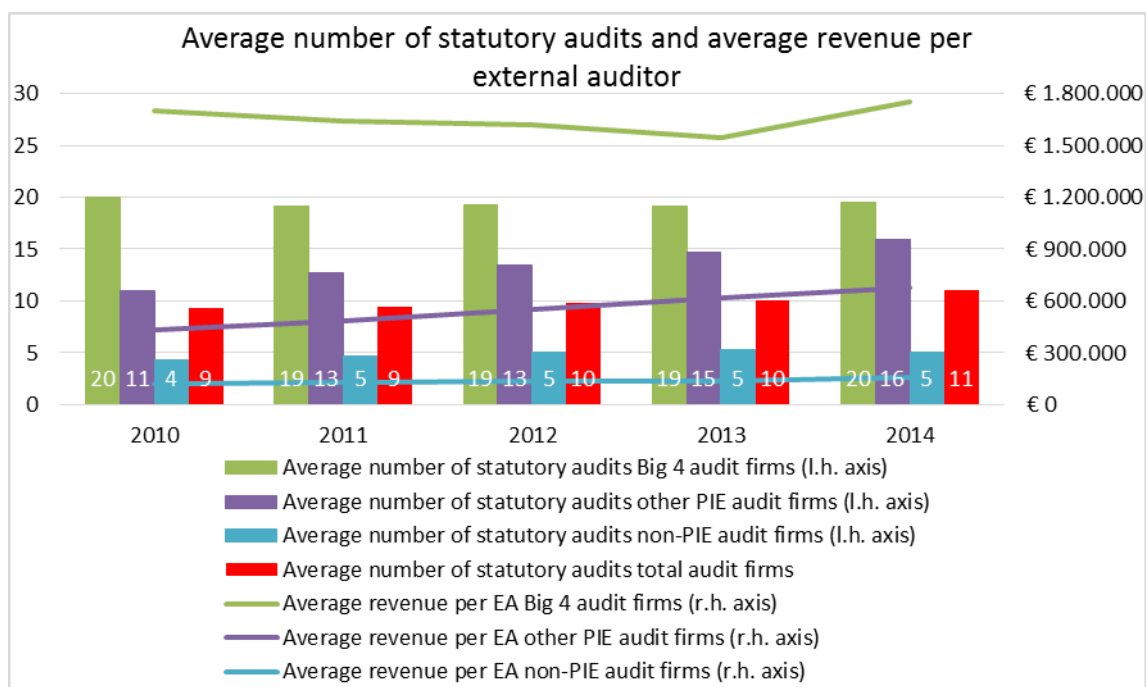


Figure 5: Average number of statutory audits per statutory auditor (bars, left-hand axis) and the average revenue per statutory auditor (lines, right-hand axis) according to data from the most recently completed financial year of the audit firms.

In 2013 and 2014, the AFM carried out a review of the quality of the statutory audits performed by the Big 4 audit firms.<sup>26</sup> In response, the Big 4 audit firms announced they would introduce measures to improve quality, including increasing the time available to statutory auditors for the performance of statutory audits, by for instance engaging additional statutory auditors and reducing their client and engagement portfolios.<sup>27</sup> As a result of this announced measure, the AFM expects the average number of statutory audits per statutory auditor at the Big 4 audit firms to decline in the coming years. To assess the effectiveness of the implementation of the improvement measures announced by the Big 4 audit firms, the AFM will monitor the average number of statutory audits per statutory auditor closely.

<sup>26</sup> Report 'Results of the inspection of the quality of statutory audits at the Big 4 audit firms, ', 25 September 2014.

<sup>27</sup> See footnote 26, page 119.

### 3.5 More diversification in client portfolio of audit firms by number of sectors

In the Monitor, the AFM asks audit firms to state the sectors in which they earn revenue from audit clients.<sup>28</sup> This provides insight on the main sectors of the audit clients and the general client portfolio of the various audit firm categories.

The Big 4 audit firms have earned revenue from audit clients in virtually all sectors over the past five years. The other PIE audit firms have earned revenue from clients in (on average) more than nine sectors. Table 2 shows that approximately six PIE audit firms performed audits for municipalities and provinces between 2010 and 2014, and that the majority of the PIE audit firms performed statutory audits of financial enterprises. Table 2 shows an increase in the average number of sectors in which the PIE audit firms are active, from 7.7 in 2010 to 11.0 in 2014.

| <i>PIE audit firms</i>               | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Number of PIE audit firms            | 15          | 15          | 13          | 12          | 10          |
| Average number of sectors            | 7.7         | 8.1         | 9.5         | 9.7         | 11.0        |
| Financial enterprises                | 14          | 14          | 12          | 11          | 9           |
| Construction and project development | 13          | 13          | 11          | 10          | 9           |
| Real estate                          | NA          | NA          | 9           | 9           | 9           |
| Housing associations                 | 6           | 8           | 7           | 6           | 7           |
| Energy                               | 7           | 7           | 8           | 8           | 8           |
| IT/Telecom                           | 12          | 11          | 9           | 9           | 8           |
| Municipalities/provinces             | 5           | 6           | 7           | 6           | 6           |
| Automotive                           | NA          | NA          | 9           | 9           | 9           |
| Hospitality                          | 7           | 9           | 8           | 7           | 8           |
| Trade                                | 13          | 13          | 11          | 10          | 9           |
| Production                           | 13          | 14          | 11          | 10          | 9           |
| Services                             | 13          | 13          | 11          | 10          | 9           |
| Other                                | 13          | 13          | 11          | 11          | 10          |

*Table 2: Number of PIE audit firms earning revenue from audit clients in the sector concerned and the average number of sectors of audit clients from which PIE audit firms earned revenue in the most recently completed financial year of the audit firms.*

Table 3 shows the number of non-PIE audit firms earning revenue from statutory audits and other services provided to audit clients in the sectors in question. The question on which this table is based was only put to audit firms that perform statutory audits.<sup>29</sup>

<sup>28</sup> The 2010 and 2011 Monitors designated 11 sectors for which audit firms could state whether they had received a fee for statutory audits and other services provided from audit clients in the sectors concerned. In 2012, Real Estate, which in 2010 and 2011 was included under Building and Project Development and Real Estate, was included as a separate sector. Automotive was also added as a sector. This brought the total number of sectors to 13. The lack of information on the (now separate) sectors of Automotive and Real Estate is marked as not applicable ('NA') in tables 2 and 3 for the years 2010 and 2011.



Table 3 shows that over 200 of the approximately 365 non-PIE audit firms performing statutory audits have audit clients in the trade, production and services sectors each year. While the non-PIE audit firms charged fees to audit clients in an average of 2.7 sectors in 2010, the data from the Monitor show that this average number of sectors increased to 3.2 in 2014. This suggests that the non-PIE audit firms have diversified their client portfolios over the past five years.

| <i>Non-PIE audit firms</i>           | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Number of non-PIE audit firms        | 359         | 372         | 366         | 363         | 367         |
| Average number of sectors            | 2.7         | 2.8         | 3.0         | 3.0         | 3.2         |
| Financial enterprises                | 60          | 62          | 61          | 64          | 65          |
| Construction and project development | 166         | 182         | 167         | 149         | 147         |
| Real estate                          | NA          | NA          | 47          | 42          | 48          |
| Housing associations                 | 13          | 12          | 12          | 6           | 11          |
| Energy                               | 17          | 15          | 14          | 9           | 10          |
| IT/Telecom                           | 64          | 56          | 62          | 65          | 53          |
| Municipalities/provinces             | 11          | 9           | 11          | 8           | 10          |
| Automotive                           | NA          | NA          | 98          | 108         | 108         |
| Hospitality                          | 45          | 38          | 38          | 38          | 40          |
| Trade                                | 292         | 302         | 293         | 297         | 301         |
| Production                           | 208         | 217         | 212         | 206         | 216         |
| Services                             | 191         | 209         | 214         | 229         | 236         |
| Other                                | 164         | 141         | 121         | 118         | 115         |

*Table 3: Number of non-PIE audit firms performing statutory audits and earning revenue from audit clients in the sector concerned and the average number of sectors of audit clients from which PIE audit firms earned revenue in the most recently completed financial year of the audit firms.*

Taken together, tables 2 and 3 show that the client portfolios of both the PIE and the non-PIE audit firms have become more diverse. It can also be seen that a limited number of non-PIE audit firms have audit clients in the municipalities and provinces, energy and housing associations sectors. The PIE audit firms are strongly represented in these sectors. The increased diversification into a greater number of sectors means that audit firms will have to invest in specific sector knowledge and experience. The AFM will continue to monitor the trend towards further sector diversification.

Under European legislation, the AFM will regularly monitor developments in the market for statutory audit services to PIEs from mid-2016.<sup>30</sup> The AFM will accordingly continue to request information in the Monitor regarding the sectors in which PIE audit clients operate.

<sup>29</sup> As shown in figure 3 in section 3.2, the average number of non-PIE audit firms reporting in the Monitor that they perform statutory audits is 365.

<sup>30</sup> Article 27 of Regulation no. 537/2014.

### 3.6 Number of ‘clean’ unqualified audit opinions is stable

Audit firms may only perform statutory audits if they hold a licence under the Wta. Since the issuance of the audit opinion is the final stage of a statutory audit, the AFM considers it important that audit firms are aware of the type of audit opinions that they issue. As stated in section 3.2, in the 2014 Monitor the audit firms stated that they had performed a total of approximately 21,800 statutory audits in their most recently completed financial year. This is followed by a request to state the numbers of statutory audits for which the different types of audit opinion have been issued.<sup>31</sup> Audit firms are also given the option of stating that this information is not available. In 2014, audit firms representing 35 per cent of the total number of 21,800 statutory audits stated that they did not have information available regarding the type of audit opinion that they have issued.

Table 4 shows that all audit firms collectively are gradually increasing the information they have available on the types of audit opinion that they have issued. While the non-PIE audit firms are able to state the type of report issued in more than 90 per cent of their statutory audits, for the Big 4 and the other PIE audit firms this percentage stands on average at just under 50 per cent.

| <i>Statement of type of audit opinion actually obtained (in per cent)</i> | <i>2010</i>       | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|---|-------------------|-------------|-------------|-------------|-------------|
| · Big 4 audit firms   | N/A <sup>32</sup> | 49%         | 49%         | 75%         | 49%         |
| · Other PIE audit firms   | 33%               | 20%         | 34%         | 52%         | 49%         |
| PIE audit firms   | 4%                | 42%         | 45%         | 70%         | 49%         |
| Non-PIE audit firms   | 92%               | 94%         | 94%         | 94%         | 95%         |
| Total percentage stating type of report                                   | 30%               | 58%         | 61%         | 78%         | 65%         |

*Table 4: Percentages of the number of statutory audits from the most recently completed financial year of the audit firms for which the audit firms are able to state the type of audit opinion issued.*

Even though full information on the types of audit opinion issued is not available, trends can be identified at aggregate level. The Monitor registers five types of audit opinion issued by audit firms: the ‘clean’ unqualified opinion<sup>33</sup>, the unqualified opinion with mandatory emphasis of matter paragraph due to serious concerns regarding the ability to continue as a going concern, the qualified opinion, the disclaimer of opinion and the adverse opinion. The information on the types of audit opinions issued shows that the percentage of statutory audits given a ‘clean’ unqualified opinion has remained more or less stable at around 85 per cent over the past five years.<sup>34</sup>

<sup>31</sup> In the Monitor, audit firms can only state the type of audit opinion issued for the total number of statutory audits reported, or to state that information on the types of audit opinions issued is not available.

<sup>32</sup> No answer given.

<sup>33</sup> A ‘clean’ unqualified audit opinion is an unqualified opinion without the mandatory explanatory paragraph due to serious doubts regarding continuity.

<sup>34</sup> The possible answers to the question regarding the outcomes of the statutory audits include the option of ‘This information is not available’. The numbers of the answers to this question thus vary widely over the

Table 5 shows the percentages of reports involving issuance of an unqualified opinion with mandatory emphasis of matter paragraph due to serious concerns regarding continuity, a qualified opinion, a disclaimer of opinion and an adverse opinion. The increased incidence of unqualified opinions with mandatory emphasis of matter paragraph due to serious concerns regarding continuity (2010: 0.6 per cent, 2014: 2.4 per cent) and qualified opinions (2010: 0.6 per cent, 2012: 2.1 per cent, 2014: 1.9 per cent) may reflect the worsened economic conditions in the years from 2008 to 2011. As a result of the economic crisis, results may come under heavy pressure and refinancing may be more difficult, if not impossible. The risk of failure to continue as a going concern is therefore greater than normal. For the auditor, this means that he or she must be especially alert and critical in the audit process, and consider the interests of the users of the financial statements at all times. The AFM focused on this point in its regular reviews of the Big 4 audit firms in 2009 and 2010.<sup>35</sup>

| Type of opinion                               | 2010   | 2011   | 2012   | 2013   | 2014   |
|---|--------|--------|--------|--------|--------|
| Unqualified with emphasis of matter paragraph | 0.60%  | 1.50%  | 2.30%  | 2.50%  | 2.40%  |
| Qualified                                     | 0.60%  | 2.60%  | 2.10%  | 1.90%  | 1.90%  |
| Disclaimer                                    | 12.40% | 13.50% | 13.00% | 11.10% | 12.20% |
| Adverse                                       | 0.03%  | 0.07%  | 0.06%  | 0.02%  | 0.22%  |

*Table 5: Types of audit opinions from the most recently completed financial year of the audit firms, other than 'standard' unqualified opinions, in percentages of the total number of statutory audits reported.*

Under European legislation, PIE audit firms will have to provide more information on their statutory audits of PIE audit clients in future.<sup>36</sup> The AFM therefore expects the PIE audit firms to register more information centrally regarding the types of audit opinions issued on their behalf once this European legislation takes effect in mid-2016.

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years. Certainly in 2010, the total size of the obtained population was relatively limited (see also table 4).

<sup>35</sup> 'Report on general findings regarding audit quality and quality monitoring', 1 September 2010.

<sup>36</sup> Under Article 12 of Regulation no. 537/2014, PIE audit firms are obliged to inform their supervisory authority if they refuse to issue an audit opinion or issue an adverse or qualified opinion.

## 4. Revenue and fee development

In the Monitor data, the AFM observes the following trends regarding the development of revenue and fees at licensed audit firms:

- Revenue of non-PIE audit firms has risen by 10 per cent due to increased market share (§ 4.1)
- Pressure on fees is visible for statutory audits at the Big 4 audit firms after a period of fee increases (§ 4.2)

### 4.1 Revenue of non-PIE audit firms up 10 per cent due to increased market share

The revenue of an audit firm consists of all the fees it charges to its audit clients. This includes both revenue from audit services and revenue from other services, such as administrative or tax-related services.

Table 6 shows the total fees charged by audit firms in the Netherlands to clients for which they performed statutory audits (in 2010: €1.33 billion and in 2014: €1.33 billion).<sup>37</sup> This is divided into fees for PIE audit firms (2010: €1.16 billion and 2014: 1.14 billion) and non-PIE audit firms (2010: €175 million and 2014: €192 million).

| <i>Fees charged</i><br>(€ x million)               | 2010         |                |              | 2014         |                |              |
|--|--------------|----------------|--------------|--------------|----------------|--------------|
|  | <i>PIE</i>   | <i>non-PIE</i> | <i>Total</i> | <i>PIE</i>   | <i>non-PIE</i> | <i>total</i> |
| Fees for statutory audits of PIEs                  | 138          | 0              | 138          | 133          | 0              | 133          |
| Fees for statutory audits of non-PIEs              | 580          | 111            | 691          | 553          | 121            | 674          |
| <b>Total fees for statutory audits</b>             | <b>718</b>   | <b>111</b>     | <b>829</b>   | <b>686</b>   | <b>121</b>     | <b>807</b>   |
| Fees for other assurance services to audit clients | 225          | 6              | 231          | 240          | 10             | 250          |
| Fees for non-audit services to audit clients       | 215          | 58             | 273          | 215          | 61             | 277          |
| <b>Total fees for other services</b>               | <b>440</b>   | <b>64</b>      | <b>504</b>   | <b>455</b>   | <b>71</b>      | <b>527</b>   |
| <b>Total fees charged to audit clients</b>         | <b>1,158</b> | <b>175</b>     | <b>1,333</b> | <b>1.141</b> | <b>192</b>     | <b>1,334</b> |

Table 6: Fees charged to audit clients for which audit firms in each category have performed statutory audits.

<sup>37</sup> The total fees charged to audit clients shown does not include value-added tax.

The above also distinguishes between fees charged by non-PIE audit firms to audit clients for statutory audits (2010: approximately €111 million and 2014: approximately €121 million) and other non-audit services (2010: approximately €64 million and 2014: approximately €71 million). In sum therefore, the non-PIE audit firms charged a total of €175 million to audit clients in 2010 and €192 million in 2014. This shows a ten per cent increase in the fees charged for statutory audits by the non-PIE audit firms. This is largely due to their increased market share in comparison to the Big 4 firms (see figure 2).

The ten per cent increase in the revenue of the non-PIE audit firms is also to some extent related to the increase in the number of statutory audits performed by the non-PIE audit firms. In figure 2 in section 3.2, this is shown in the increase in the market share of non-PIE auditors, from 28 per cent in 2010 to 34 per cent in 2014. This is partly because a number of PIE audit firms have had their PIE licence changed to a non-PIE licence. The increase in fees is also because existing audit clients are being charged higher fees. The Monitor shows that the average revenue earned by a non-PIE audit firm from all audit clients collectively has risen from approximately €385,000 in 2010 to nearly €460,000 in 2014.

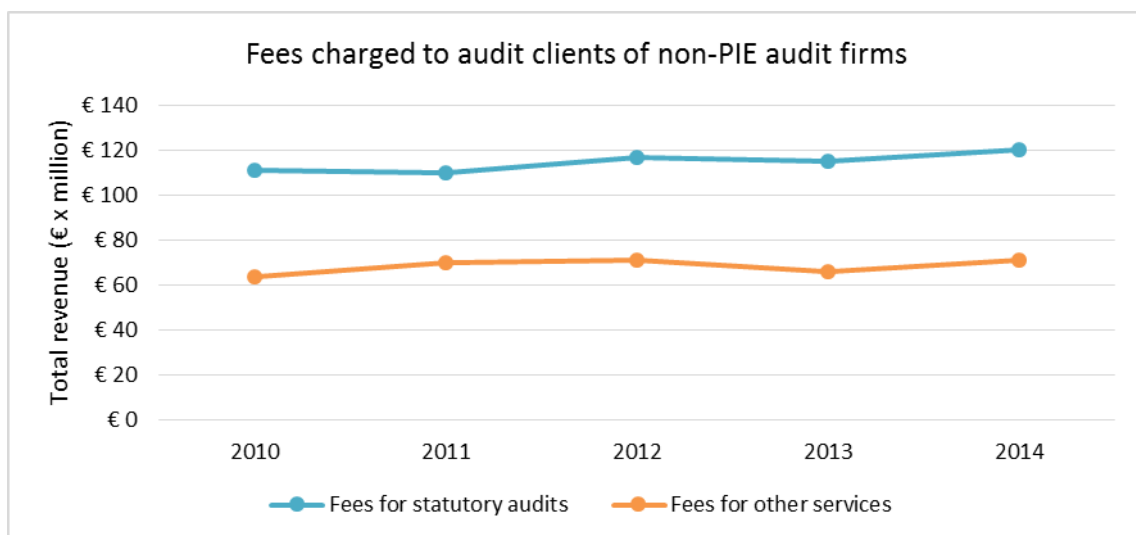


Figure 6: Development of the fees charged by non-PIE audit firms to audit clients in the most recently completed financial year of the audit firms.

Figure 7 shows the fees charged by PIE audit firms to their audit clients. The fees for statutory audits of PIE audit clients and non-PIE audit clients is shown in addition to the fees charged for other services provided to all audit clients.

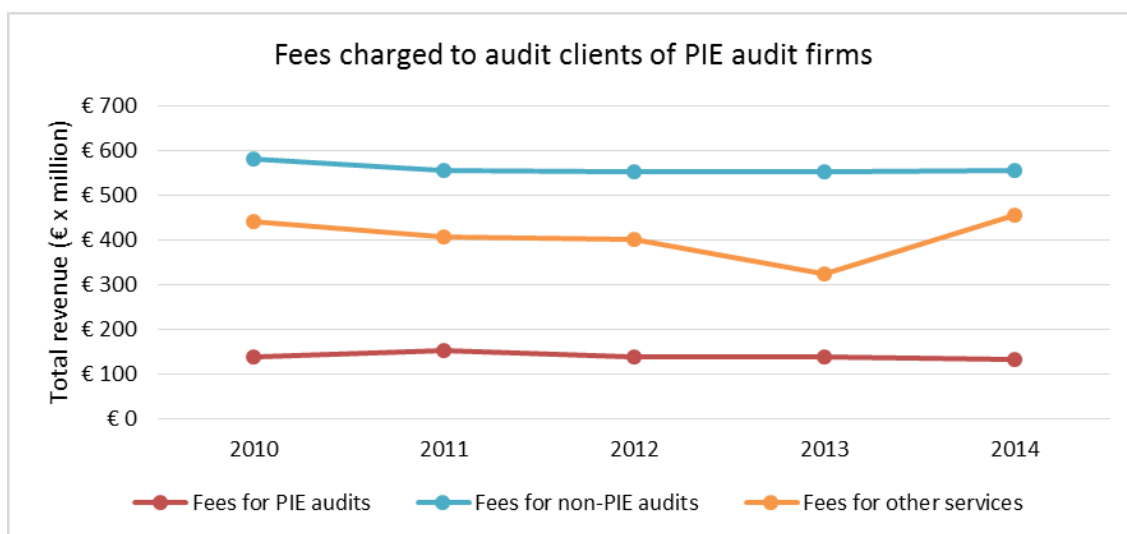


Figure 7: Development of the fees charged by PIE audit firms to audit clients in the most recently completed financial year of the audit firms.

The total fees charged by PIE audit firms to their audit clients has declined from €1,158 million in 2010 to €1,142 million in 2014. This is due to a nearly 4.5 per cent decline in the total fees for statutory audits of PIE and non-PIE audit clients as a result of a decline in the number of firms holding a PIE licence and the related loss of market share (see figure 2). Due to the reduction in the number of audit firms with a PIE licence from 15 to 11, the average total fees charged by a PIE audit firm to its audit clients has risen from €77 million in 2010 to €104 million in 2014. This is an increase of 34 per cent.

Since 1 January 2013, an audit firm that performs statutory audits at a PIE may not provide any services other than audit services to the PIE in question and its related entities.<sup>38</sup> This separation between audit and advisory services to PIE audit clients did not apply to services for which the auditor or audit firm had been engaged prior to 1 January 2013.<sup>39</sup> In view of the introduction of this mandatory separation between audit and non-audit services, the AFM expects that fees charged by PIE audit firms to PIE audit clients for services other than statutory audits will decline to a very low level or even to zero.

#### 4.2 Pressure on fees is visible for statutory audits at the Big 4 audit firms after a period of fee increases

Based on the Monitor, the AFM has calculated the average fee for a statutory audit on the basis of the number of statutory audits and the fees charged for these in the most recently completed

<sup>38</sup> Section 24b Wta.

<sup>39</sup> Section 86a (1) Wta.

financial year. The development of fees for the statutory audits of PIE and non-PIE audit clients charged by the various categories of audit firms in percentage terms is shown in figure 8.

Figure 8 shows that the development of the fee for a statutory audit at a non-PIE audit client has remained stable in percentage terms for all categories of audit firms over the past five years. The average fee for a statutory audit for all audit firm categories charged in 2014 was between 98 and 106 per cent of the fee charged in 2010. In 2014, the average fee for a non-PIE audit by a PIE audit firm was €42,000. For an audit by a non-PIE audit firm, this was €18,000.

The average fee for a PIE audit performed by a Big 4 audit firm increased from €106,000 to €161,000, so that revenue was unchanged. These audit firms have been charging higher fees for statutory audits of PIE audit clients since 2010.<sup>40</sup> In the Monitor for the period 2013-2014, the AFM sees a decline in the average fee for a statutory PIE audit to €139,000.

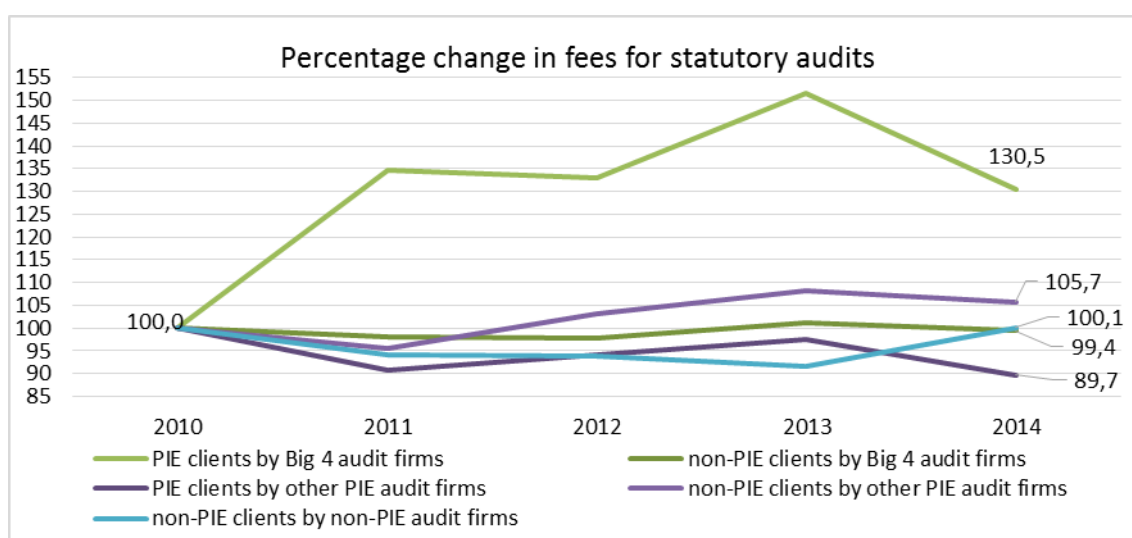


Figure 8: Development of the average fee per statutory audit on the basis of data for the most recently completed financial year of the audit firms, shown in percentage changes compared to the average fee in the base year 2010.

There has also been extensive publicity in various media that the average fee for a statutory PIE audit declined in 2014-2015.<sup>41</sup> As shown in figure 8 above, the decline in fees started in 2013. This may be due to aggressive quotations made by audit firms as a result of increased competition. In some cases, the review of the scope of the audit has also played a role. Many PIE audit clients changed their audit firm last year, in anticipation of the mandatory audit firm rotation that will apply in the Netherlands from 1 January 2016. The first effects of audit firm rotation may already be visible. The increase in competition is a welcome development. At the same time, this must not threaten the investment in quality that the audit firms need to make. The AFM will continue to monitor the development of average PIE audit fees over the coming years.

<sup>40</sup> 'Report on general findings regarding audit quality and quality control monitoring' 1 September 2010.

<sup>41</sup> See also the article '[Vier gevolgen van de verplichte stoelendans voor accountants](#)' NRC, 6 July 2014.

## 5. System for quality control and controlled and sound business operations

The AFM has observed the following trends regarding quality control systems at audit firms from the Monitor data:

- Quality monitoring at PIE audit firms is relatively less frequent than at non-PIE audit firms (§ 5.1)
- In percentage terms, PIE audit firms register fewer infringements than non-PIE audit firms (§ 5.2)
- Number of audit firms finding suspicions of fraud at audit clients has doubled (§ 5.3)
- Number of audit firms faced with judicial proceedings and complaints is increasing (§ 5.4)

### 5.1 Quality monitoring at PIE audit firms is relatively less frequent than at non-PIE audit firms

An audit firm has to ensure that an engagement quality control review (EQCR) is conducted with respect to all statutory audits conducted of PIEs, separate from the statutory audit itself.<sup>42</sup> The audit firm also has to formulate test criteria on the basis of which it determines which non-PIE audits should also be subjected to an EQCR.<sup>43</sup> Not all statutory audits of non-PIE audit clients will be subjected to an EQCR. Furthermore, audit firms must ensure that statutory auditors do not issue their audit opinion prior to completion of the EQCR.<sup>44</sup> Figure 10 shows the percentages of statutory audits of non-PIE audit clients for which an EQCR was carried out between 2012 and 2014, for both PIE and non-PIE audit firms.

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<sup>42</sup> Section 18 (1) Wta.

<sup>43</sup> Section 18 (2) Wta.

<sup>44</sup> Section 21 Bta.



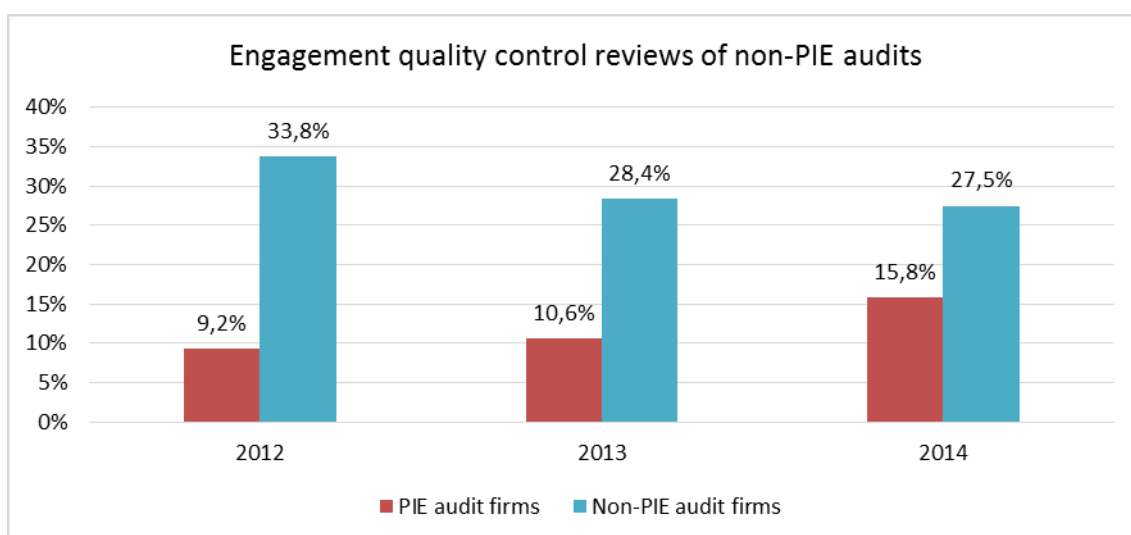


Figure 10: Percentage of non-PIE audits performed by the PIE and non-PIE audit firms for which an EQCR was performed in comparison to the total number of non-PIE statutory audits.

At the non-PIE audit firms, the number of non-PIE audits subjected to an EQCR has declined in percentage terms from 33.8 per cent in 2012 to 27.5 per cent in 2014. The reverse applies to the PIE audit firms, where there has been a steady increase in the number of EQCRs conducted for non-PIE audit clients. In percentage terms, the non-PIE audit firms still conduct significantly more EQCRs than the PIE audit firms. The AFM expects to see a change in this respect in the coming years. In its report, the NBA working group on the future of the accountancy profession proposes that the number of EQCRs should be increased so that several files prepared by any one external auditor should be subjected to an EQCR.<sup>45</sup>

An audit firm has to set rules for the conduct of the regular internal quality monitoring of completed statutory audits.<sup>46</sup> This regular internal quality monitoring is usually referred to as internal reviews. In the AFM Monitor, the AFM asks how many statutory audits performed in the most recently completed financial year of the audit firm have been subject to such an internal review. Due to changes in the formulation of the questions in the AFM Monitor, only the data for the last three years are comparable. Figure 11 shows the percentage of statutory audits subjected to an internal quality review for the PIE and the non-PIE audit firms between 2012 and 2014. Contrary to the EQCRs in figure 10, the internal quality reviews shown in figure 11 concern the percentages of statutory audits at both PIE and non-PIE audit clients.

<sup>45</sup> See report by the NBA working group on the future of the accountancy profession NBA Monitor '[In the Public Interest](#)' dated 25 September 2014, measure 5.3, page 72.

<sup>46</sup> Section 9 [Regulation on Audit Firms](#) (Verordening Accountantsorganisaties). As indicated in the note to this Section, the regular internal quality review is one (but not the only) element of the evaluation of the quality control system as referred to in Section 22 (2) Bta.

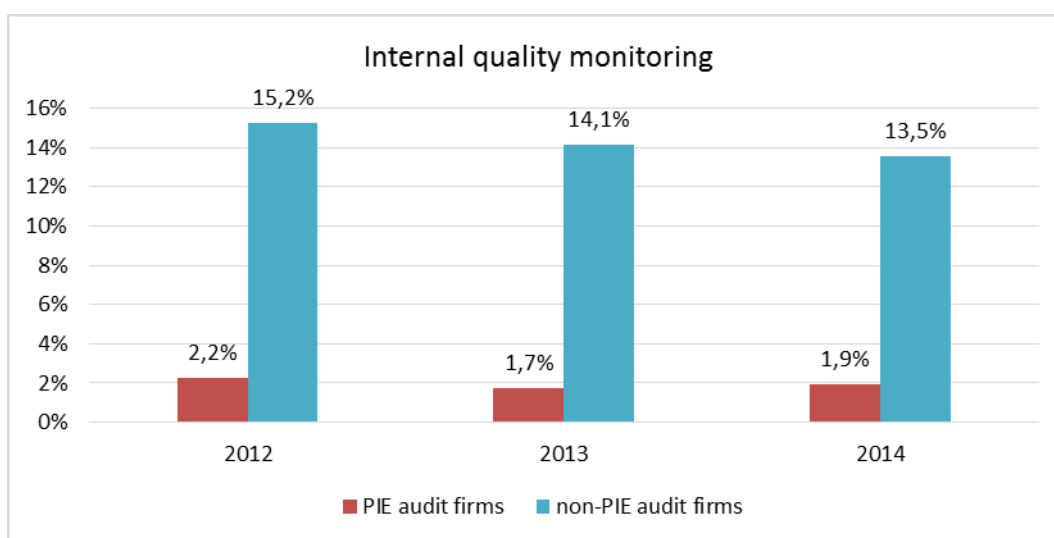


Figure 11: Percentage of statutory audits performed by the PIE and non-PIE audit firms for which internal quality monitoring reviews (or internal quality reviews) were conducted compared to the total number of statutory audits.

The number of internal quality reviews has gradually declined at both the PIE and the non-PIE audit firms. Figure 11 shows that the PIE audit firms conduct significantly fewer internal quality reviews than the non-PIE audit firms. While the non-PIE audit firms conducted an internal quality review of 13.5 per cent of their statutory audits in 2014, for the PIE audit firms this figure was 1.9 per cent. As stated in section 3.4, the external auditors of the PIE audit firms perform on average more statutory audits than the statutory auditors of the non-PIE audit firms. An internal quality review is usually performed not only to establish the quality of an individual statutory audit, but also to establish on a regular basis that each statutory auditor is delivering adequate quality.

The AFM expects audit firms to carry out more internal quality reviews as a result of increased pressure on the quality of statutory audits.

## 5.2 In percentage terms, PIE audit firms register fewer infringements than non-PIE audit firms

An infringement is a violation of the rules set in or pursuant to Sections 13 to 21 (or for PIE audit firms, Sections 13 to 24) of the Act by a statutory auditor or other employees that is registered in the register of infringements of an audit firm.<sup>47</sup> Figure 12 shows the number of infringements as a percentage of the total statutory audits performed for the various audit firm categories.

In the 2014 Monitor, the Big 4 and the other PIE audit firms reported that they had registered a total of 348 infringements in the most recently completed financial year (2010: 509), which represents 2.4 per cent of the number of statutory audits conducted by the PIE audit firms.

<sup>47</sup> Examples of infringements are: violations of rules governing independence or audit standards by statutory auditors or other employees of an audit firm.

The number of infringements registered by the non-PIE audit firms has increased in absolute terms (2010: 1,580, 2014: 1,633). However in comparison to the increased number of statutory audits, the infringements have declined in relative terms from 25.8 per cent in 2010 to 22.2 per cent in 2014.

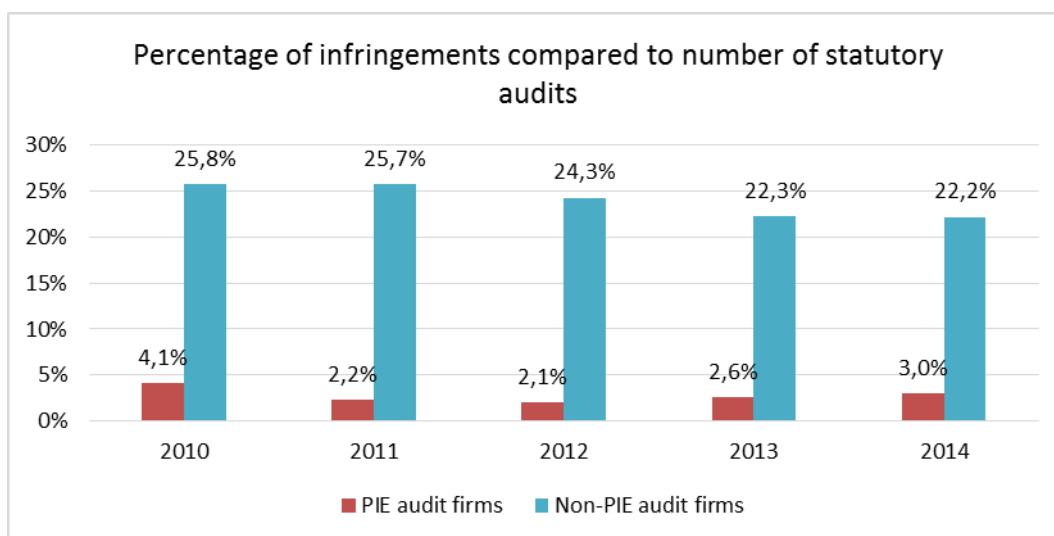


Figure 12: Percentage of infringements compared to number of statutory audits performed by the PIE and non-PIE audit firms.

In absolute terms, the number of infringements registered by the PIE audit firms in the Monitor for 2014 (348) is clearly lower than the number of infringements registered by the non-PIE audit firms (1,633). In percentage terms as well, the number of infringements compared to the number of statutory audits by the PIE audit firms (3.0 per cent) is significantly lower than that of the non-PIE audit firms (22.2 per cent). This is remarkable, since the PIE audit firms have performed approximately 65 per cent of the total number of statutory audits in the past five years (see section 3.2). Infringements may for example be identified during the conduct of internal quality reviews. As stated in section 5.2, the PIE audit firms conduct almost no internal quality reviews. This could to some extent explain the lower percentage of infringements. Another possible cause for the lower proportion of infringements could be that several infringements are combined in one registration because the PIE audit firms conduct a greater number of sample observations in absolute terms. Table 8 gives the percentages for the number of infringements registered by PIE audit firms that led to follow-up action, and the nature of this follow-up action. The data provided for the 2014 Monitor show that 53 per cent of the total number of 348 infringements registered by PIE audit firms led to measures or changes in the audit firm's quality control system.

| <i>Follow-up to registered infringements<br/>PIE audit firms</i>   | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|--|-------------|-------------|-------------|-------------|-------------|
| Number of infringements leading to both measures against employees and changes to quality control system | 15%         | 10%         | 4%          | 8%          | 9%          |
| Number of infringements leading to measures against employees  | 49%         | 28%         | 40%         | 39%         | 35%         |
| Number of infringements leading to changes to quality control system                                     | 17%         | 15%         | 19%         | 8%          | 8%          |
| Number of infringements that did not lead to either measures or changes                                  | 20%         | 47%         | 37%         | 44%         | 47%         |

*Table 8: Follow-up to infringements registered by PIE audit firms, shown in percentages of the number of registered infringements.*

As shown above in figure 12, the non-PIE audit firms registered 1,633 infringements in 2014. Table 9 shows that around 45 per cent of the 1,633 infringements registered by non-PIE audit firms in 2014 led to measures against employees or changes to the quality control system.

| <i>Follow-up to registered infringements<br/>Non-PIE audit firms</i>                                     | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|--|-------------|-------------|-------------|-------------|-------------|
| Number of infringements leading to both measures against employees and changes to quality control system | 4%          | 5%          | 6%          | 4%          | 12%         |
| Number of infringements leading to measures against employees  | 14%         | 12%         | 16%         | 23%         | 13%         |
| Number of infringements leading to changes to quality control system                                     | 29%         | 28%         | 23%         | 18%         | 20%         |
| Number of infringements that did not lead to either measures or changes                                  | 53%         | 55%         | 55%         | 55%         | 56%         |

*Table 9: Follow-up to infringements registered by non-PIE audit firms, shown in percentages of the number of registered infringements.*

Tables 8 and 9 above show that around half of the number of registered infringements led to measures against employees or changes to the quality control system. From this it can be seen that over the years, the PIE audit firms have more frequently taken measures against employees (2014: 35 per cent) than the non-PIE audit firms (2014: 13 per cent).

### 5.3 Number of audit firms finding suspicions of fraud at audit clients has doubled

In the Monitor, the audit firms are asked to state whether they have encountered any reasonable suspicion of fraud (as defined in Section 26 Wta) at one or more audit clients in the previous financial year. A distinction is then made between statutory audits during which a reasonable suspicion of fraud was found that was adequately followed up by the audit client (in accordance with Section 37(1) Bta) and statutory audits that led to a report of fraud. Figure 13 shows the percentage of audit firms that encountered suspicions of fraud and how they addressed the situation. The AFM notes that the number of audit firms finding reasonable suspicion of fraud at audit clients has doubled: from 16 audit firms in 2010 to 31 in 2014. Within this figure, an increase can be observed in the percentage of audit firms finding reasonable suspicion of fraud that was adequately followed up: from 4.3 per cent in 2010 to 8.2 per cent in 2014. No report was made to the Financial Supervision Office (BFT) in these cases. The percentage of audit firms reporting instances of fraud to the BFT because the audit client had not adequately followed up the identified fraud was 1.3 per cent in 2010 and 1.8 per cent in 2014.

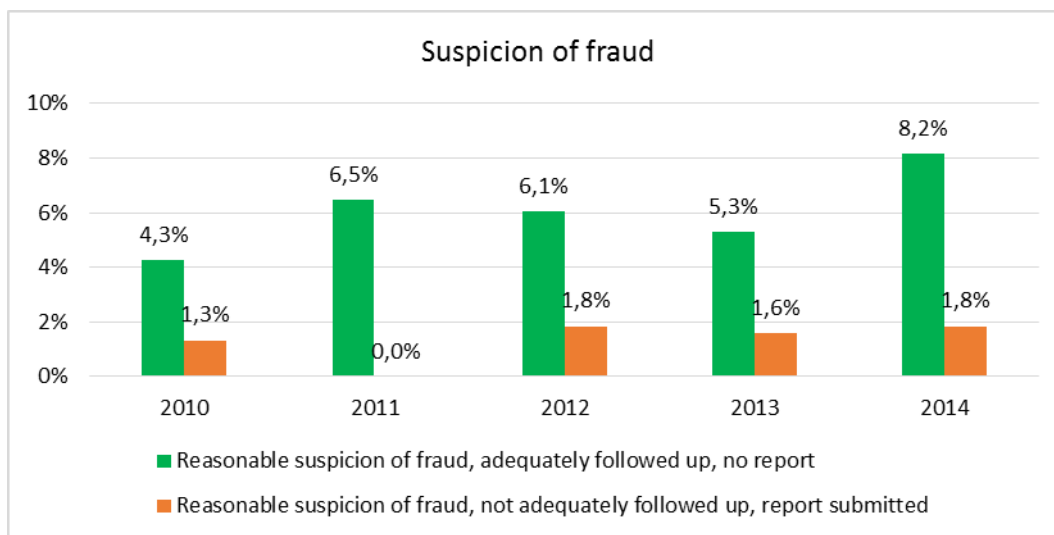


Figure 13: Percentage of audit firms encountering suspicion of fraud and what action they took compared to the entire population of audit firms. On average, around 2 per cent of audit firms did not have this information available.

Under the new European regulation that takes effect in the Netherlands in mid-2016, the obligation of PIE audit firms to notify the competent authorities will be extended beyond cases involving fraud that are inadequately followed up. In the future, they will also have to report other irregularities that they encounter during the statutory audit of financial statements by PIE audit clients that are not followed up adequately by the audit client concerned.<sup>48</sup> These other irregularities may relate to the content of the financial reporting, or to other legal infringements by the PIE identified by the auditor during the audit of the financial reporting. The NBA working group on the future of the accountancy profession will also set measures to ensure that fraud is reported more explicitly.<sup>49</sup> The AFM accordingly expects to see an increase in the number of reports of irregularities at PIEs in the future.

#### 5.4 Number of audit firms faced with judicial proceedings and complaints increases

An audit firm must ensure that complaints regarding the conduct of statutory audits are dealt with and recorded carefully.<sup>50</sup> Complaints or other disputes may lead to legal proceedings. In the Monitor, the AFM asks whether in the previous 12 months audit firms have encountered complaints, claims, legal or complaints procedures against the audit firms or employees of the audit firms in relation to professional conduct.

Figure 9 shows that an average of 69 complaints have been reported in the Monitor over the past five years. More than 80 per cent of these instances relate to non-PIE audit firms. The number of claims per year over the past five years has fluctuated, with an average of 14 claims per year. A total of 80 complaints and claims were reported in the Monitor for 2014 (2010: 62).

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<sup>48</sup> Article 7 of Regulation no. 537/2014.

<sup>49</sup> Report by the NBA working group on the future of the accountancy profession NBA Monitor '[In the Public Interest](#)', 25 September 2014, measure 4.4, page 61.

<sup>50</sup> Section 25 Bta.

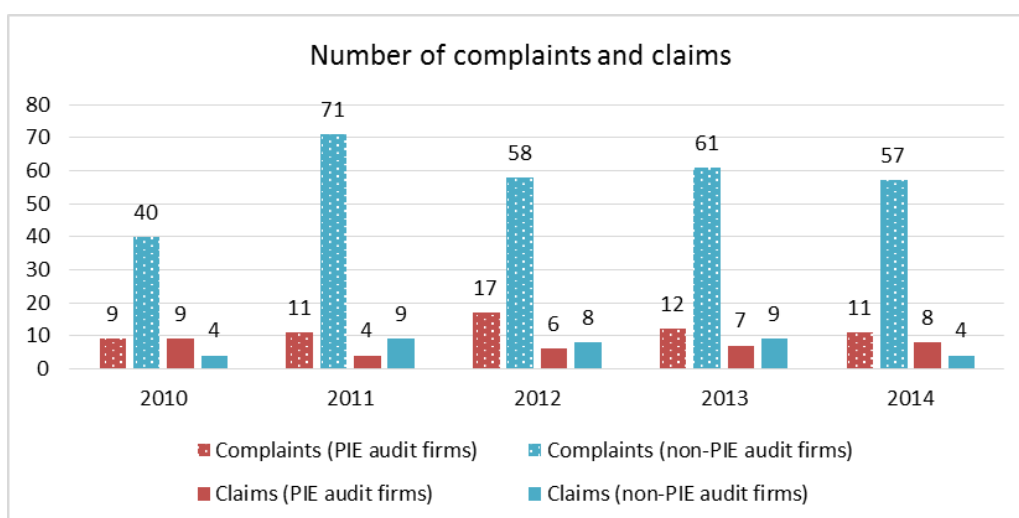


Figure 9: Absolute number of complaints and claims at PIE and non-PIE audit firms in the past 12 months. | no delayed information – data over the 12 months preceding completion of the Monitor |

Table 7 below firstly shows the number of audit firms that have been faced with one or more legal proceedings in percentage terms in the year in question. This concerns both judicial proceedings (criminal, civil, administrative and disciplinary) and complaints proceedings. Secondly, table 7 shows the breakdown of the absolute number of proceedings in percentage terms.

Over 80 per cent of the firms did not encounter any proceedings in the past five years. This applies to 240 non-PIE audit firms and one PIE audit firm. An increase in the number of proceedings has occurred over the past five years from around 16 per cent in 2010 (100 proceedings) to around 18 per cent in 2014 (124 proceedings).

| <i>Proceedings (in per cent)</i>                           | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|--|-------------|-------------|-------------|-------------|-------------|
| No   | 83.7%       | 84.2%       | 84.1%       | 82.3%       | 81.6%       |
| Yes, of which:   | 16.3%       | 15.8%       | 15.9%       | 17.7%       | 18.4%       |
| - Criminal proceedings                                     | 2.0%        | 2.9%        | 2.9%        | 5.0%        | 6.4%        |
| - Civil proceedings  | 29.0%       | 26.5%       | 27.2%       | 29.4%       | 29.6%       |
| - Administrative proceedings                               | 2.0%        | 3.9%        | 4.9%        | 3.4%        | 3.2%        |
| - Disciplinary proceedings                                 | 52.0%       | 52.9%       | 48.5%       | 44.5%       | 41.6%       |
| - Complaints to the NBA Complaints Committee <sup>51</sup> | 11.0%       | 7.8%        | 8.7%        | 10.9%       | 13.6%       |
| - Complaints to the Disputes Board (Raad voor Geschillen)  | 4.0%        | 4.9%        | 6.8%        | 5.9%        | 4.8%        |
| - Information not available                                | 0.0%        | 1.0%        | 1.0%        | 0.8%        | 0.8%        |
| Total percentage subdivision by nature                     | 100.0%      | 100.0%      | 100.0%      | 100.0%      | 100.0%      |

Table 7: Number of audit firms encountering one or more proceedings in the year in question in percentage terms. The second part of the table gives the breakdown by type of proceeding. | no delayed information – data over the 12 months preceding completion of the Monitor |

<sup>51</sup> Formerly the Complaints Committee of NIVRA-NOVAA.

The absolute number of audit firms facing proceedings has risen in the past five years, from 100 in 2010 to 124 in 2014. The increase has occurred mainly with respect to judicial (criminal, civil and administrative) proceedings. The AFM notes that the number of audit firms encountering legal proceedings has risen by more than 40 per cent from 33 audit firms in 2010 to 48 in 2014. On the other hand, the percentage of audit firms at which employees were faced with disciplinary proceedings has declined from 52 per cent in 2010 to 41.6 per cent in 2014.

There has also been an increase in complaints submitted to the Complaints Committee of the NBA from 11 per cent in 2010 to 13.6 per cent in 2014.

The AFM sees the increase in the number of audit firms faced with claims, complaints and proceedings as a reflection of the increased litigiousness of society and a more critical attitude towards auditors. The AFM expects this trend to continue.



## Appendix I: Glossary

**Audit client:** the enterprise or institution on which the audit firm conducts the statutory audit (this therefore does not refer to enterprises or institutions for which the audit firm performs a voluntary audit or other assurance engagement).

**Audit firm:** an enterprise or institution whose business is the conduct of statutory audits, or an organisation in which such enterprises or institutions are mutually affiliated, and which is entered as a licensee in the register of the AFM.

**Auditor:** a registered accountant or accounting consultant qualified to issue certification.

**Audit report:** The Audit Firms (Supervision) Act defines an audit report as a written statement of the findings of a statutory audit. The term audit report is also used for the auditor's statement as stated in the Further Regulations on Auditing and Other Standards ('Nadere voorschriften controle- en overage standaarden', NV COS) applying to financial statements relating to periods closing after 15 December 2010 (often referred to as the auditor's opinion).

**Statutory auditor:** the natural person employed by or affiliated to an audit firm and has responsibility for the conduct of a statutory audit.

**Financial enterprise:**

- a management company;
- a collective investment scheme;
- an investment firm or payment services provider;
- a depositary or custodian;
- a clearing institution;
- an entity for risk acceptance;
- a financial services provider;
- a financial institution;
- a credit institution;
- an insurer (in accordance with Section 1:1 of the Financial Supervision Act).

**Infringement:** a contravention of the rules set in or pursuant to Section 13 to Section 21 (or for PIE audit firms, Section 13 to Section 24) of the Act by a statutory auditor or other employees that is registered in the register of infringements of an audit firm.

**Internal review:** regular internal quality review of completed engagements for the performance of a statutory audit, as referred to in Section 9 of the Audit Firms Regulation.

**Non-PIE:** an enterprise or institution that is not designated as a public interest entity (PIE).

**PIE:** public interest entity:

- a legal person established in the Netherlands under Dutch law whose securities are admitted to trading on a regulated market as referred to in Section 1:1 of the Financial Supervision Act;
- a bank having its registered office in the Netherlands as referred to in Section 1:1 of the Financial Supervision Act which has been granted a licence under that Act;
- a central credit institution having its registered office in the Netherlands as referred to in Section 1:1 of the Financial Supervision Act which has been granted a licence under that Act; or
- a reinsurer, life insurer or non-life insurer having its registered office in the Netherlands as referred to in Section 1:1 of the Financial Supervision Act which has been granted a licence under that Act.

**Quality control review/engagement quality control review:** an assessment of a statutory audit carried out by a quality assessor (either a registered accountant or an accounting consultant qualified to issue certification) with the objective of assessing whether the statutory auditor has reasonably come to the conclusion as stated in his audit report (as referred to in Section 18 to Section 21 Bta) which is completed before the statutory auditor issues his audit opinion.

## Appendix II: Aggregated results from the AFM Monitor 2013 and 2014

| <i>General</i>   | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
| Number of licensees<br>(as at year-end <sup>52</sup> ) | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Total  | 11   | 402     | 413   | 12   | 428     | 440   |

| <i>General</i>                 | 2014 |         |       | 2013 |         |       |
|--------------------------------|------|---------|-------|------|---------|-------|
| Number of Monitor participants | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Total                          | 11   | 419     | 430   | 12   | 441     | 453   |

| <i>General</i>   | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
| Audit firms affiliated to the<br>Association of Chartered Accountants<br>(SRA) | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Yes  | 2    | 250     | 252   | 2    | 260     | 262   |
| No   | 9    | 169     | 178   | 10   | 181     | 191   |
| Total  | 11   | 419     | 430   | 12   | 441     | 453   |

| <i>General</i>  | 2014 |         |       | 2013 |         |       |
|---|------|---------|-------|------|---------|-------|
| Representation of the most recently<br>completed financial year | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| 2014 (2013)   | -    | 5       | 5     | -    | 8       | 8     |
| 2013 (2012)   | 6    | 410     | 416   | 7    | 428     | 435   |
| Non-calendar financial year<br>2013/2014 (2012/2013)            | 5    | 4       | 9     | 5    | 5       | 10    |
| Other   | -    | -       | -     | -    | -       | -     |
| Total   | 11   | 419     | 430   | 12   | 441     | 453   |

| <i>General</i>   | 2014 |         |       |
|--|------|---------|-------|
| Presence of a body responsible for internal supervision at audit firms | PIE  | non-PIE | Total |
| Yes  | 10   | 18      | 28    |
| No   | 1    | 401     | 402   |
| Total  | 11   | 419     | 430   |

| Yes  | PIE | non-PIE | Total |
|--|-----|---------|-------|
| At network level                                   |     |         |       |
| Supervisory Board                                  | 4   | 4       | 8     |
| Other (Members' Board, Board of Supervision, etc.) | 4   | 2       | 6     |
| At audit firm level                                |     |         |       |
| Supervisory Board                                  | 1   | 5       | 6     |
| Other (Members' Board, Board of Supervision, etc.) | 3   | 7       | 10    |

<sup>52</sup> The AFM notes that there are differences between the number of licensees according to the AFM's public register as at 31 December of a year and the number of audit firms that have completed the Monitor each year. Licenses may have been granted or withdrawn between the date on which audit firms complete the Monitor during the year and the number of licensed audit firms as at 31 December.

|                           |    |    |    |
|---------------------------|----|----|----|
| Public Interest Committee | 7  | -  | 7  |
| Total                     | 19 | 18 | 37 |

| <i>General</i>                                     | 2014 |         |       |
|--|------|---------|-------|
| Number of independent members                      | PIE  | non-PIE | Total |
| At network level                                   |      |         |       |
| Supervisory Board                                  | 11   | 16      | 27    |
| Other (Members' Board, Board of Supervision, etc.) | 6    | 3       | 9     |
| At audit firm level                                |      |         |       |
| Supervisory Board                                  | -    | 11      | 11    |
| Other (Members' Board, Board of Supervision, etc.) | 7    | 5       | 12    |
| Public Interest Committee                          | 19   | -       | 19    |
| Total  | 43   | 35      | 78    |

|  | 2014 |         |       |
|--|------|---------|-------|
| Number of dependent members                        | PIE  | non-PIE | Total |
| At network level                                   |      |         |       |
| Supervisory Board                                  | 15   | 3       | 18    |
| Other (Members' Board, Board of Supervision, etc.) | 13   | 7       | 20    |
| At audit firm level                                |      |         |       |
| Supervisory Board                                  | 3    | 2       | 5     |
| Other (Members' Board, Board of Supervision, etc.) | 6    | 13      | 19    |
| Public Interest Committee                          | 5    | -       | 5     |
| Total  | 42   | 25      | 67    |

| No   | PIE | non-PIE | Total |
|--|-----|---------|-------|
| At network level                                   |     |         |       |
| Supervisory Board                                  | 6   | 29      | 35    |
| Other (Members' Board, Board of Supervision, etc.) | 6   | 29      | 35    |
| At audit firm level                                |     |         |       |
| Supervisory Board                                  | 9   | 24      | 33    |
| Other (Members' Board, Board of Supervision, etc.) | 7   | 22      | 29    |
| Public Interest Committee                          | 3   | 29      | 32    |
| Total  | 31  | 133     | 164   |

| Does your organisation's executive board receive a profit-related remuneration? | PIE | non-PIE | Total |
|---|-----|---------|-------|
| Yes, remuneration is directly related to profit                                 | 1   | 81      | 82    |
| Partially   | 6   | 55      | 61    |
| No, there is no profit-related remuneration                                     | 4   | 283     | 287   |
| Total   | 11  | 419     | 430   |

| <i>Continuity of audit firms</i>  | 2014 |         |       | 2013 |         |       |
|---|------|---------|-------|------|---------|-------|
| The expectation that an audit firm will merge, acquire an organisation, reorganise or make changes to its governance structure in the coming 12 months. Or, the expectation that the organisation will be acquired or that there will be a change to the participation of the organisation in a | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
|   |      |         |       |      |         |       |

| <i>Continuity of audit firms</i>                            | 2014 |     |     | 2013 |     |     |
|---|------|-----|-----|------|-----|-----|
| network.  |      |     |     |      |     |     |
| Yes, merger   | -    | 15  | 15  | 1    | 15  | 16  |
| Yes, acquisition of an organisation                         | 4    | 14  | 18  | 2    | 8   | 10  |
| Yes, reorganisation   | -    | 7   | 7   | 1    | 7   | 8   |
| Yes, changes to the governance structure (actual or formal) | 2    | 24  | 26  | 1    | 30  | 31  |
| Yes, acquisition by an organisation                         | -    | 15  | 15  | -    | 6   | 6   |
| Yes, participation in a network                             | -    | 2   | 2   | -    | 12  | 12  |
| Yes, participation in an international network              | -    | 2   | 2   | NA   | NA  | NA  |
| Yes, departure from a network                               | -    | 1   | 1   | 0    | 0   | 0   |
| No  | 5    | 353 | 358 | 8    | 379 | 387 |
| Total   | 11   | 433 | 444 | 13   | 457 | 470 |

| <i>Number of statutory audits</i>   | 2014   |         |        | 2013   |         |        |
|---|--------|---------|--------|--------|---------|--------|
| How many statutory audits has your organisation performed in your organisation's most recently completed financial year? Count the number of audit reports that your organisation's statutory auditors have issued in this period as a result of statutory audits. State statutory audits of PIEs and statutory audits of non-PIEs separately | PIE    | non-PIE | Total  | PIE    | non-PIE | Total  |
| PIE - Total number of statutory audits performed  | 1,048  | 1       | 1,049  | 939    | 2       | 941    |
| Non-PIE - Total number of statutory audits performed  | 13,350 | 7,354   | 20,704 | 13,068 | 6,911   | 19,979 |
| Total - Total number of statutory audits performed  | 14,398 | 7,355   | 21,753 | 14,007 | 6,913   | 20,920 |
| No statutory audits – number of firms   | 1      | 52      | 53     | -      | 78      | 78     |

| <i>Number of statutory audits</i> | PIE | non-PIE | Total | PIE | non-PIE | Total |
|-----------------------------------|-----|---------|-------|-----|---------|-------|
| 0                                 | 1   | 52      | 53    | 2   | 78      | 80    |
| 1-5                               | -   | 133     | 133   | 4   | 135     | 139   |
| 6-10                              | -   | 81      | 81    | -   | 82      | 82    |
| 11-25                             | -   | 81      | 81    | -   | 75      | 75    |
| 26-100                            | -   | 60      | 60    | 2   | 60      | 62    |
| 101-500                           | 5   | 12      | 17    | 4   | 11      | 15    |
| 501-1000                          | -   | -       | -     | -   | -       | -     |
| 1001-2500                         | 1   | -       | 1     | -   | -       | -     |
| 2501-5000                         | 4   | -       | 4     | -   | -       | -     |
| Total                             | 11  | 419     | 430   | 12  | 441     | 453   |

| <i>Number of statutory audits</i>  | <i>2014</i> |         |       | <i>2013</i> |         |       |
|--|-------------|---------|-------|-------------|---------|-------|
| How many of the statutory audits were new statutory audits? The statutory audits of PIEs and statutory audits of non-PIEs are stated separately. | PIE         | non-PIE | Total | PIE         | non-PIE | Total |
| PIE - Total number of new statutory audits   | 137         | -       | 137   | 64          | -       | 64    |
| Non-PIE - Total number of new statutory audits   | 895         | 896     | 1,791 | 1,004       | 912     | 1,916 |
| Total - Total number of new statutory audits   | 1,032       | 896     | 1,928 | 1,068       | 912     | 1,980 |
| No statutory audits – number of firms  | 1           | 52      | 53    |             |         |       |
| PIE - Total number of new statutory audits as per cent of total  | 13%         | 0%      | 13%   | 7%          | 0%      | 7%    |
| non-PIE - Total number of new statutory audits as per cent of total  | 7%          | 12%     | 9%    | 8%          | 13%     | 10%   |
| Total - Total number of new statutory audits as per cent of total  | 7%          | 12%     | 9%    | 8%          | 13%     | 9%    |

| <i>Percentage new audits</i>          | PIE | non-PIE | Total | PIE | non-PIE | Total |
|---------------------------------------|-----|---------|-------|-----|---------|-------|
| 0                                     | 4   | 218     | 222   | 1   | 241     | 242   |
| 1-25%                                 | 4   | 138     | 142   | 11  | 138     | 149   |
| 26-50%                                | 3   | 40      | 43    | -   | 42      | 42    |
| 51-75%                                | -   | 6       | 6     | -   | 5       | 5     |
| 76-100%                               | -   | 17      | 17    | -   | 15      | 15    |
| Total                                 | 11  | 419     | 430   | 12  | 441     | 453   |
| No statutory audits – number of firms | 1   | 52      | 53    |     |         |       |

| <i>Number of statutory audits</i>  | <i>2014</i> |         |       | <i>2013</i> |         |       |
|--|-------------|---------|-------|-------------|---------|-------|
| Number of terminated engagements for performance of a statutory audit in the most recently completed financial year of the audit firms | PIE         | non-PIE | Total | PIE         | non-PIE | Total |
| PIE - Total number of terminated engagements due to mandatory audit firm rotation at the initiative of the audit firm                  | 19          | -       | 19    |             |         |       |
| PIE - Total number of terminated engagements due to mandatory audit firm rotation at the initiative of the audit client                | 1           | -       | 1     |             |         |       |
| PIE - Total number of interim terminated engagements at the initiative of your organisation  | 1           | -       | 1     |             |         |       |
| PIE - Total number of interim terminated engagements at the initiative of the audit client   | 1           | -       | 1     |             |         |       |

| <i>Number of statutory audits</i>  | <i>2014</i> |     |       | <i>2013</i> |     |       |
|--|-------------|-----|-------|-------------|-----|-------|
| PIE - Total number of other engagements terminated at the initiative of the audit firm         | -           | 1   | 1     |             |     |       |
| PIE - Total number of other engagements terminated at the initiative of the audit client       | 70          | 6   | 76    |             |     |       |
| PIE - Total number of engagements terminated at the initiative of the audit firm               | 2           | 1   | 3     | 5           | 2   | 7     |
| PIE - Total number of engagements terminated at the initiative of the audit client             | 90          | 6   | 96    | 127         | 0   | 127   |
| Non-PIE - Total number of regular engagements terminated at the initiative of the audit firm   | 26          | 54  | 80    |             |     |       |
| Non-PIE - Total number of regular engagements terminated at the initiative of the audit client | 976         | 629 | 1,605 |             |     |       |
| Non-PIE - Total number of interim terminated engagements at the initiative of the audit firm   | 14          | 12  | 26    |             |     |       |
| Non-PIE - Total number of interim terminated engagements at the initiative of the audit client | 33          | 32  | 65    |             |     |       |
| Non-PIE - Total number of engagements terminated at the initiative of the audit firm           | 40          | 66  | 106   | 26          | 28  | 54    |
| Non-PIE - Total number of engagements terminated at the initiative of the audit client         | 1,009       | 661 | 1,670 | 968         | 725 | 1,693 |
| Total - Total number of engagements terminated at the initiative of the audit firm             | 42          | 67  | 109   | 31          | 30  | 61    |
| Total - Total number of engagements terminated at the initiative of the audit client           | 1,099       | 667 | 1,766 | 1,095       | 725 | 1,820 |

| <i>Number of statutory audits</i>   | 2014 |         |       |
|---|------|---------|-------|
| Several PIEs have changed their audit firm as a result of the mandatory audit firm rotation effective from 1 January 2016. The number of invitations to tender to which audit firms actually responded. In addition, this includes the number of tenders that led to an engagement for a statutory audit for the audit firms. | PIE  | non-PIE | Total |
| Total number of invitations to tender for the audit firms   | 195  | -       | 195   |
| Total number of tenders that led to an engagement for a statutory audit for the audit firms   | 74   | -       | 74    |
| Total number of rejections received   | 85   | -       | 85    |

| <i>Fees charged</i>   | 2014  |         |       | 2013  |         |       |
|---|-------|---------|-------|-------|---------|-------|
|   | PIE   | non-PIE | Total | PIE   | non-PIE | Total |
| Total net revenue of the audit firms in the most recently completed financial year (in € x million) | 1,678 | 1,248   | 2,926 | 1,605 | 1,159   | 2,764 |

| <i>Fees charged</i>  | 2014    |         |         | 2013    |         |         |
|--|---------|---------|---------|---------|---------|---------|
| The fees charged by audit firms to audit clients in the most recently completed financial year. The fees charged to audit clients that are PIEs and the fees charged to other audit clients (non-PIE) separately (in € x million) are stated separately. | PIE     | non-PIE | Total   | PIE     | non-PIE | Total   |
| Fees for statutory audits  | 686.7   | 120.5   | 807.1   | 692.0   | 115.1   | 807.1   |
| Of which PIE   | 132.5   | 0.0     | 132.5   | 139.4   | 0.0     | 139.4   |
| Of which non-PIE   | 554.2   | 120.6   | 674.8   | 552.7   | 115.0   | 667.7   |
| Fees for other services (to audit clients)   | 454.8   | 71.4    | 526.3   | 324.1   | 66.1    | 390.2   |
| Of which other assurance services to PIE clients   | 30.9    | 0.0     | 30.9    |         |         |         |
| Of which other assurance services to non-PIE clients   | 209.3   | 9.8     | 219.1   |         |         |         |
| Of which other assurance services in total   | 240.3   | 9.8     | 250.0   | 139.1   | 9.4     | 148.5   |
| Of which other to PIE clients  | 11.3    | -       | 11.3    |         |         |         |
| Of which other to non-PIE clients  | 203.3   | 61.7    | 265.0   |         |         |         |
| Of which other total   | 214.6   | 61.7    | 276.3   | 185.0   | 56.7    | 241.7   |
| Total fees charged to audit clients  | 1,141.5 | 192.1   | 1,333.6 | 1,016.1 | 181.2   | 1,197.3 |



| <i>Fees charged</i>  | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
| Percentage of revenue from statutory audits compared to total fees charged | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| 0  | 1    | 93      | 94    | 0    | 0       | 0     |
| 1-25%  | -    | 6       | 6     | 0    | 7       | 7     |
| 26-50%   | 2    | 67      | 69    | 1    | 60      | 61    |
| 51-75%   | 6    | 145     | 151   | 7    | 156     | 163   |
| 76-100%  | 2    | 108     | 110   | 4    | 140     | 144   |
| Total  | 11   | 419     | 430   | 12   | 363     | 375   |

| <i>Fees charged</i>   | 2014 |         |       | 2013 |         |       |
|---|------|---------|-------|------|---------|-------|
| The percentage of the number of statutory audits performed by the audit firm in the most recently completed financial year where the fee charged by the audit firm for other services provided exceeds the fee charged for the statutory audit. | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| 0   | -    | 191     | 191   | 1    | 175     | 176   |
| 1-5%  | 3    | 9       | 12    | 3    | 8       | 11    |
| 6-10%   | -    | 21      | 21    | 0    | 28      | 28    |
| 11-20%  | 5    | 43      | 48    | 4    | 38      | 42    |
| 21-40%  | 2    | 56      | 58    | 4    | 56      | 60    |
| 41-60%  | -    | 26      | 26    | 0    | 27      | 27    |
| 61-80%  | -    | 7       | 7     | 0    | 9       | 9     |
| 81-90%  | -    | -       | -     | 0    | 4       | 4     |
| 91-95%  | -    | -       | -     | 0    | 0       | 0     |
| 96-100%   | -    | 14      | 14    | 0    | 18      | 18    |
| Total   | 10   | 367     | 377   | 12   | 363     | 375   |

| <i>Audit reports</i>  | 2014   |         |        | 2013   |         |        |
|---|--------|---------|--------|--------|---------|--------|
| Distinction between the number of audit reports issued by the statutory auditors of the audit firm as a result of the statutory audits. | PIE    | non-PIE | Total  | PIE    | non-PIE | Total  |
| PIE – Unqualified opinion   | 860    | 3       | 863    | 866    | 2       | 868    |
| PIE – with mandatory emphasis of matter paragraph due to serious doubts regarding continuity  | 13     | -       | 13     | 9      | -       | 9      |
| PIE – Qualified opinion   | 6      | -       | 6      | 15     | -       | 15     |
| PIE – Disclaimer of opinion   | 12     | -       | 12     | 9      | -       | 9      |
| PIE – Adverse opinion   | -      | -       | -      | -      | -       | -      |
| PIE - Total   | 891    | 3       | 894    | 890    | 2       | 892    |
| Non-PIE – Unqualified opinion   | 5,824  | 5,350   | 11,174 | 8,346  | 4,980   | 13,326 |
| Non-PIE – with mandatory emphasis of matter paragraph due to serious doubts regarding continuity  | 132    | 192     | 324    | 238    | 161     | 399    |
| Non-PIE – Qualified opinion   | 83     | 159     | 242    | 168    | 128     | 296    |
| Non-PIE – Disclaimer of opinion   | 285    | 1,415   | 1,700  | 422    | 1,376   | 1,798  |
| Non-PIE – Adverse opinion   | 6      | 25      | 31     | 3      | 1       | 4      |
| Non-PIE – Total   | 6,330  | 7,141   | 13,471 | 9,177  | 6,646   | 15,823 |
| Information not available   | 2      | 7       | 9      | 1      | 9       | 10     |
| Number of statutory audits at firms that did not have this information available:   |        |         |        |        |         |        |
| No statutory audits – number of firms   | 1      | 52      | 53     | -      | 78      | 78     |
| Total   | 14,398 | 7,355   | 21,753 | 14,007 | 6,913   | 20,920 |

| <i>Statutory auditors and other employees</i>                | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
| How many statutory auditors issued the audit reports?        | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Total number:  | 560  | 844     | 1,404 | 584  | 825     | 1,409 |
| Of which: statutory auditors performing 1-5 statutory audits | 122  | 409     | 531   | 123  | 415     | 538   |
| statutory auditors performing 6-25 statutory audits          | 266  | 378     | 644   | 291  | 360     | 651   |
| statutory auditors performing more than 25 statutory audits  | 172  | 57      | 229   | 170  | 50      | 220   |
| Average number of statutory audits per auditor               | 26   | 9       | 15    | 24   | 8       | 15    |
| No statutory audits – number of firms                        | 1    | 52      | 53    | -    | 78      | 78    |

| <i>Statutory auditors and other employees</i>   | 2014   |         |        | 2013  |         |        |
|---|--------|---------|--------|-------|---------|--------|
| The percentage of time that employees of audit firms spent on average on the performance of audits of financial statements in the most recently completed financial year. This includes both voluntary audits and statutory audits. | PIE    | non-PIE | Total  | PIE   | non-PIE | Total  |
| employees spent 100% of their time on the performance of audits of financial statements   | 53     | 75      | 128    | 18    | 42      | 60     |
| employees spent 76-99% of their time on the performance of audits of financial statements   | 839    | 444     | 1,283  | 579   | 434     | 1,013  |
| employees spent 51-75% of their time on the performance of audits of financial statements   | 1,647  | 466     | 2,113  | 1,156 | 452     | 1,608  |
| employees spent 26-50% of their time on the performance of audits of financial statements   | 781    | 556     | 1,337  | 1,256 | 645     | 1,901  |
| employees spent 1-25% of their time on the performance of audits of financial statements  | 1,144  | 1,481   | 2,625  | 1,537 | 1,603   | 3,140  |
| employees spent 0% of their time on the performance of audits of financial statements   | 2,501  | 5,834   | 8,335  | 949   | 6,605   | 7,554  |
| Information not available   | 3,931  | 2,703   | 6,634  | 4,360 | 2,560   | 6,920  |
| Total   | 10,896 | 11,559  | 22,455 | 9,855 | 12,341  | 22,196 |

| <i>Features of client portfolio</i>  | 2014 |         |       |
|--|------|---------|-------|
| The percentage of statutory audits for which use was made of a service delivery centre that provides services from outside the Netherlands to the audit firm or its network, such as the performance of audit procedures (off-shoring) | PIE  | non-PIE | Total |
| 0  | 7    | 356     | 363   |
| 1-5%   | -    | 4       | 4     |
| 6-10%  | 1    | 2       | 3     |
| 11-20%   | -    | -       | -     |
| 21-40%   | 2    | 4       | 6     |
| 41-60%   | -    | 1       | 1     |
| 61-80%   | -    | -       | -     |
| 81-90%   | -    | -       | -     |
| 91-95%   | -    | -       | -     |
| 96-100%  | -    | -       | -     |
| Total  | 10   | 367     | 377   |

| <i>Features of client portfolio</i>   | <i>2014</i> |         |       |
|---|-------------|---------|-------|
| The percentage of statutory audits for which use was made of a service delivery centre that provides services from the Netherlands to the audit firm or its network, such as the performance of audit procedures (on-shoring) | PIE         | non-PIE | Total |
| 0   | 9           | 365     | 374   |
| 1-5%  | -           | 1       | 1     |
| 6-10%   | 1           | -       | 1     |
| 11-20%  | -           | -       | -     |
| 21-40%  | -           | -       | -     |
| 41-60%  | -           | -       | -     |
| 61-80%  | -           | -       | -     |
| 81-90%  | -           | -       | -     |
| 91-95%  | -           | -       | -     |
| 96-100%   | -           | 1       | 1     |
| Total   | 10          | 367     | 377   |

| The percentage of statutory audits for which use was made of automated data analysis consisting of computer research that recognised patterns and draws conclusions based on source data. | PIE | non-PIE | Total |
|---|-----|---------|-------|
| 0   | 4   | 303     | 307   |
| 1-5%  | 1   | 7       | 8     |
| 6-10%   | 1   | 8       | 9     |
| 11-20%  | 1   | 4       | 5     |
| 21-40%  | 1   | 14      | 15    |
| 41-60%  | -   | 7       | 7     |
| 61-80%  | 2   | 4       | 6     |
| 81-90%  | -   | 4       | 4     |
| 91-95%  | -   | -       | -     |
| 96-100%   | -   | 16      | 16    |
| Total   | 10  | 367     | 377   |

| <i>Quality policy and quality control system</i>   | 2014   |         |        | 2013   |         |        |
|--|--------|---------|--------|--------|---------|--------|
| The number of statutory audits performed by the audit firms in the most recently completed financial year that were subjected to a periodic internal quality review (internal review), as referred to in Article 9 of the Regulation on Audit Firms. | PIE    | non-PIE | Total  | PIE    | non-PIE | Total  |
| Number of internal quality reviews   | 280    | 995     | 1,275  | 245    | 976     | 1,221  |
| Number of statutory audits   | 14,398 | 7,355   | 21,753 | 14,007 | 6,913   | 20,920 |
| Percentage of internal quality reviews compared to number of statutory audits  | 1.9%   | 13.5%   | 5.9%   | 1.7%   | 14.1%   | 5.8%   |
| The number of internal reviews in percentages of total number of statutory audits.   |        |         |        |        |         |        |
| None   | 1      | 115     | 117    | 2      | 121     | 123    |
| 1-5 %  | 6      | 21      | 26     | 6      | 18      | 24     |
| 6-10 %   | 2      | 35      | 37     | 3      | 47      | 50     |
| 11-20 %  | 1      | 72      | 73     | 1      | 64      | 65     |
| 21-40 %  | -      | 44      | 44     | -      | 30      | 30     |
| 41-60 %  | -      | 16      | 16     | -      | 11      | 11     |
| 61-80 %  | -      | 7       | 7      | -      | 8       | 8      |
| 81-100 %   | -      | 57      | 57     | -      | 64      | 64     |
| Total  | 10     | 367     | 377    | 12     | 363     | 375    |

| <i>Quality policy and quality control system</i>  | 2014 |         |       |
|---|------|---------|-------|
| The percentage of internal quality reviews conducted by the audit firm (internal quality review) whereby it was established that the audit evidence obtained was inadequate and inappropriate (= inadequate audit). | PIE  | non-PIE | Total |
| None  | 1    | 320     | 321   |
| 1-5 %   | 2    | 2       | 4     |
| 6-10 %  | 1    | 2       | 3     |
| 11-20 %   | 1    | 9       | 10    |
| 21-40 %   | 2    | 9       | 11    |
| 41-60 %   | -    | 8       | 8     |
| 61-80 %   | 2    | 4       | 6     |
| 81-100 %  | 1    | 13      | 14    |
| Total   | 10   | 367     | 377   |

| <i>Quality policy and quality control system</i>                        | 2014 |         |       |
|---|------|---------|-------|
| The number of inadequate audits for which remedial measures were taken. | PIE  | non-PIE | Total |
| 0   | 3    | 304     | 307   |
| 1-5   | 4    | 57      | 61    |
| 6-10  | 1    | 2       | 3     |
| 11-25   | 2    | 3       | 5     |
| 26-100  | -    | 1       | 1     |
| 101-500   | -    | -       | -     |
| 501-1000  | -    | -       | -     |
| 1001-3500   | -    | 0       | 0     |
| Total   | 10   | 367     | 377   |

| <i>Quality policy and quality control system</i>  | 2014   |         |        | 2013   |         |        |
|---|--------|---------|--------|--------|---------|--------|
| The number of statutory audits performed by the audit firm in the most recently completed financial year at non-PIEs for which an engagement quality control review (EQCR) was conducted. | PIE    | non-PIE | Total  | PIE    | non-PIE | Total  |
| Number of EQCRs   | 2,112  | 2,020   | 4,132  | 1,387  | 1,965   | 3,352  |
| Total number of statutory audits of non-PIEs  | 13,350 | 7,354   | 20,704 | 13,068 | 6,911   | 19,979 |

| <i>Quality policy and quality control system</i>  | 2014  |       |       | 2013  |       |       |
|---|-------|-------|-------|-------|-------|-------|
| Percentage of engagement quality control reviews compared to number of statutory audits | 15.8% | 27.5% | 20.0% | 10.6% | 28.4% | 16.8% |
| None  | 1     | 73    | 74    | -     | 72    | 72    |
| 1-5 %   | 1     | 10    | 11    | 1     | 6     | 7     |
| 6-10 %  | 1     | 28    | 29    | 2     | 20    | 22    |
| 11-20 %   | 2     | 61    | 63    | 3     | 66    | 69    |
| 21-40 %   | 3     | 62    | 65    | 3     | 61    | 64    |
| 41-60 %   | 1     | 36    | 37    | 1     | 33    | 34    |
| 61-80 %   | 1     | 17    | 18    | -     | 20    | 20    |
| 81-100 %  | -     | 80    | 80    | 2     | 85    | 87    |
| Total   | 10    | 367   | 377   | 12    | 363   | 375   |

| <i>Quality policy and quality control system</i>   | 2014 |         |       |
|--|------|---------|-------|
| The percentage of statutory audits of PIEs for which use was made of internal professional practice consultations (professional practice bureau) or external consultations (NBA, SRA, etc.). | PIE  | non-PIE | Total |
| Internal consultations   |      |         |       |
| None   | 4    | 324     | 328   |
| 1-5 %  | -    | 4       | 4     |
| 6-10 %   | -    | 4       | 4     |
| 11-20 %  | 2    | 8       | 10    |
| 21-40 %  | 3    | 10      | 13    |
| 41-60 %  | -    | 4       | 4     |
| 61-80 %  | -    | 2       | 2     |
| 81-100 %   | 1    | 11      | 12    |
| Total  | 10   | 367     | 377   |

| External consultations | PIE | non-PIE | Total |
|------------------------|-----|---------|-------|
| None                   | 9   | 308     | 317   |
| 1-5 %                  | 1   | 7       | 8     |
| 6-10 %                 | -   | 11      | 11    |
| 11-20 %                | -   | 8       | 8     |
| 21-40 %                | -   | 6       | 6     |
| 41-60 %                | -   | 7       | 7     |
| 61-80 %                | -   | 1       | 1     |
| 81-100 %               | -   | 19      | 19    |
| Total                  | 10  | 367     | 377   |

| <i>Quality policy and quality control system</i>  | 2014 |         |       | 2013 |         |       |
|---|------|---------|-------|------|---------|-------|
| Has the audit firm designated a person as Compliance Officer for the conduct of supervision of compliance with the regulations set by and pursuant to Section 13 to Section 21 Wta? | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Yes   | 11   | 406     | 417   | 12   | 425     | 437   |
| No  | -    | 13      | 13    | -    | 16      | 16    |
| Total   | 11   | 419     | 430   | 12   | 441     | 453   |
| What percentage of his time has the Compliance Officer spent on average on the compliance function in the most recently completed financial year?                                   | PIE  | non-PIE | Total |      |         |       |
| None  | 9    | 308     | 317   |      |         |       |
| 1-5 %   | 1    | 7       | 8     |      |         |       |
| 6-10 %  | -    | 11      | 11    |      |         |       |
| 11-20 %   | -    | 8       | 8     |      |         |       |
| 21-40 %   | -    | 6       | 6     |      |         |       |
| 41-60 %   | -    | 7       | 7     |      |         |       |
| 61-80 %   | -    | 1       | 1     |      |         |       |
| 81-100 %  | -    | 19      | 19    |      |         |       |
| Total   | 10   | 419     | 429   |      |         |       |

| <i>Quality policy and quality control system</i>                                  | 2014  | 2013  |
|---|-------|-------|
| Number of compliance officers (CO) at the audit firm, including external COs.     | Total | Total |
| Number of external organisations  | 55    | 50    |
| Number of external COs  | 64    | 59    |
| Number of licensees that use the services of Engagement Quality Control Reviewers | 132   | 126   |
| Number of COs at an audit firm  |       |       |
| 1   | 129   | 126   |
| 2   | 3     | 0     |
| 3 >   | 0     | 0     |
| Total   | 132   | 126   |
| Number of audit firms at which an external CO is active                           |       |       |
| 1   | 37    | 36    |
| 2   | 13    | 8     |
| 3 >   | 14    | 15    |
| Total   | 64    | 59    |
| Number of audit firms at which the organisation of the CO is present              |       |       |
| 1   | 34    | 36    |
| 2-3   | 11    | 16    |
| 4-7   | 6     | 6     |
| 8 >   | 4     | 1     |
| Total   | 55    | 59    |

| <i>Quality policy and quality control system</i>   | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
| State the number of infringements by statutory auditors and other employees of regulations established by and pursuant to Section 13 to Section 21 (for PIE-licensees: Section 24) of the Act that were registered in the infringements register of your organisation in your organisation's most recently completed financial year. | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| No infringements   | 2    | 227     | 229   | 1    | 251     | 252   |
| 1 - 10 infringements   | 1    | 153     | 154   | 5    | 150     | 155   |
| 11 - 20 infringements  | 1    | 24      | 25    | 2    | 24      | 26    |
| 21 - 50 infringements  | 5    | 10      | 15    | 2    | 13      | 15    |
| > 50 infringements   | 2    | 5       | 7     | 2    | 3       | 5     |
| Total number of infringements  | 348  | 1,633   | 1,981 | 331  | 1,539   | 1,870 |



| <i>Quality policy and quality control system</i>   | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
|  | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Number of infringements leading to both measures against employees and changes to quality control system | 31   | 192     | 223   | 28   | 61      | 89    |
| Number of infringements leading to measures against employees  | 123  | 212     | 335   | 130  | 355     | 485   |
| Number of infringements leading to changes to quality control system                                     | 29   | 319     | 348   | 28   | 278     | 306   |
| Number of infringements that did not lead to either measures or changes                                  | 165  | 910     | 1,075 | 145  | 845     | 990   |
| Total  | 348  | 1,633   | 1,981 | 331  | 1,539   | 1,870 |

| <i>Quality policy and quality control system</i>  | 2014 |         |       | 2013 |         |       |
|---|------|---------|-------|------|---------|-------|
|   | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| The number of complaints and claims submitted to the audit firms in the most recently completed financial year regarding the organisation or the organisation's employees with respect to statutory audits. |      |         |       |      |         |       |
| Number of complaints  | 11   | 57      | 68    | 12   | 61      | 73    |
| Number of claims  | 8    | 4       | 12    | 7    | 9       | 16    |
| Total   | 19   | 61      | 80    | 19   | 70      | 89    |

| <i>Quality policy and quality control system</i>   | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
|  | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Involvement of the audit firm or its employees in the past 12 months in criminal, civil, administrative or disciplinary proceedings or complaints submitted against the audit firm or its employees to the NBA Complaints Committee or the Disputes Board. <sup>53</sup> |      |         |       |      |         |       |
| No   | 2    | 349     | 351   | 2    | 371     | 373   |
| Yes, criminal proceedings  | 3    | 5       | 8     | 3    | 3       | 6     |
| Yes, civil proceedings   | 7    | 30      | 37    | 8    | 27      | 35    |
| Yes, administrative proceedings  | 2    | 2       | 4     | 3    | 1       | 4     |
| Yes, disciplinary proceedings  | 8    | 44      | 52    | 10   | 43      | 53    |

<sup>53</sup> These proceedings and complaints may also relate to activities of the audit firm not related to the performance of statutory audits.

| <i>Quality policy and quality control system</i>     |    | 2014 |     |    | 2013 |     |
|--|----|------|-----|----|------|-----|
| Yes, complaints to the NBA Complaints Committee      | 3  | 14   | 17  | 5  | 8    | 13  |
| Yes, complaints to the Disputes Board                | 3  | 3    | 6   | 4  | 3    | 7   |
| Information not available                            | -  | 1    | 1   | -  | 1    | 1   |
| Number of criminal proceedings                       | 1  | 4    | 5   | 1  | 3    | 4   |
| Number of civil proceedings                          | 25 | 37   | 62  | 21 | 40   | 61  |
| Number of administrative proceedings                 | -  | 1    | 1   | 1  | 1    | 2   |
| Number of disciplinary proceedings                   | 45 | 60   | 105 | 48 | 53   | 101 |
| Number of complaints to the NBA Complaints Committee | 2  | 13   | 15  | 6  | 8    | 14  |
| Number of complaints to the Disputes Board           | 1  | 2    | 3   | 3  | 4    | 7   |
| Total  | 74 | 117  | 191 | 80 | 109  | 189 |

| <i>Quality policy and quality control system</i>   | 2014 |         |       | 2013 |         |       |
|--|------|---------|-------|------|---------|-------|
| The number of statutory audits performed by the audit firm in the most recently completed financial year involving reasonable suspicion of fraud as referred to in Section 26 Wta. A distinction is made here between statutory audits during which a reasonable suspicion of fraud was found that was adequately followed up by the audit client (in accordance with Section 37(1) Bta) and statutory audits that led to a report of fraud. | PIE  | non-PIE | Total | PIE  | non-PIE | Total |
| Reasonable suspicion of fraud, adequately followed up, no report   | 7    | 24      | 31    | 5    | 15      | 20    |
| Reasonable suspicion of fraud, not adequately followed up, report submitted  | 3    | 4       | 7     | 1    | 5       | 6     |
| None   | 2    | 337     | 339   | 5    | 343     | 348   |
| Information not available  | 1    | 2       | 3     | 2    | 3       | 5     |
| Total  | 13   | 367     | 380   | 13   | 366     | 379   |

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