

# Oversight and transparency

A code for audit firms holding a PIE licence

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Nederlandse  
Beroepsorganisatie  
van Accountants

The logo for the Nederlandse Beroepsorganisatie van Accountants (NBA) consists of a solid orange horizontal bar above the letters 'NBA' in a bold, orange, sans-serif font.The logo for the NBA Plan of Action Accountancy features the text 'NBA Plan of Action' and 'Accountancy' in white, stacked vertically, on a solid orange rectangular background. To the right of the text is a stylized orange graphic element resembling a large letter 'M' or a similar abstract shape.

# 01 | Introduction

## 1.1 Background and Action Plan

In the United Kingdom, the Audit Firm Governance Code (“UK Code”) became operational in June 2010. The Code applies to large and medium-sized audit firms that each audit more than twenty listed companies. The UK Code’s provisions include the appointment of independent non-executives to a body that oversees public interest matters and/or be members of other relevant governance structures within the firm as well as various reporting obligations.

Prompted by the UK Code’s introduction, the Dutch professional institutes decided to consider the option of drafting a Dutch version. A working group was set up, whose members were representatives from the Dutch Public Audit Firms’ Consultative Platform (OPAK). The public debate subsequently gained urgency following the issuance, in the fourth quarter of 2010, of reports by the Dutch Authority for the Financial Markets and the Parliamentary De Wit Committee and the publication of EU Commissioner Bar-nier’s Green Paper. The Netherlands Institute of Chartered Accountants (“NBA”) then launched an Action Plan setting out four spearheads, one of which was the enhancement of oversight and transparency by introducing a code for audit firms (“the Code”).

The Action Plan expressly stated the following measures.

- The appointment of independent non-executives who fulfil an oversight role in audit firms, i.e. overseeing such areas as the firm’s remuneration policy, quality policy and ethical issues.

- Mandatory expansion of the transparency report also in terms of subject matter, e.g. by disclosure of results of internal and external reviews and related matters taken, and disclosure of the percentage of external auditors who failed a quality assessment and any rectifying measures taken in respect of them.

The Code was released for public consultation in the fourth quarter of 2011, which resulted in various improvements in terms of the final Code’s wording as reflected in the present document.

## 1.2 The working group

The members of the working group referred to above were **Professor dr. Auke de Bos RA**, partner at Ernst & Young, **Jan Buné RA**, partner at Deloitte, **Jos van Huut RA**, partner and chairman of the board and CEO of Mazars, and **Professor dr. mr. Frans van der Wel RA**, former partner and board member of KPMG.

The working group received NBA support from **drs. Berry Wammes**, managing director of the NBA, and **Johan Scheffe RA RO CIA**, professional practice staff member. The working group has sought to draft a code that would tie in with Dutch laws and regulations, while not losing sight of the UK Code as a point of reference for the sake of much-desired international harmonisation.

# 02 | Background to the code

## 2.1 The Code's objective and background

The basis for drafting the Code is the need to safeguard the public interest within audit firms.

The public interest is defined as: *the general public's trust in the reliability of reports' on various accountability statements.*

The main instruments which audit firms should use to safeguard the public interest are its independence, quality and ethical business operations. These instruments are already in many places regulated, including the Dutch Civil Code, the Dutch Registeraccountants Act (*Wet op de registeraccountants*) and the Dutch Accounting Consultants Act (*Wet op de accountants-administratieconsulenten*), the Dutch Audit Firms (Supervision) Act (*Wet toezicht accountantsorganisaties*), the regulations and further rules issued by the professional institutes and the Dutch Corporate Governance Code.

Despite of all laws and regulations, the working group has found that there is room for improvement in terms of safeguarding the public interest, notably where an audit firm's internal oversight and accountability are concerned.

It is the Code's objective to fill these gaps, which is why strengthening internal oversight and introducing more transparent reporting are among its principal elements. They allow shareholders, audit committees, regulators and other stakeholders to form a more thoroughly infor-

med opinion on an audit firm's governance and the way in which it safeguards the public interest. Enhanced insight should contribute to strengthened trust in the external audit function.

By setting out a framework of standards, the Code also seeks to provide a benchmark for good governance of audit firms holding a PIE licence. This group of audit firms was chosen because financial service providers and listed companies have a major impact on society, both collectively and individually.

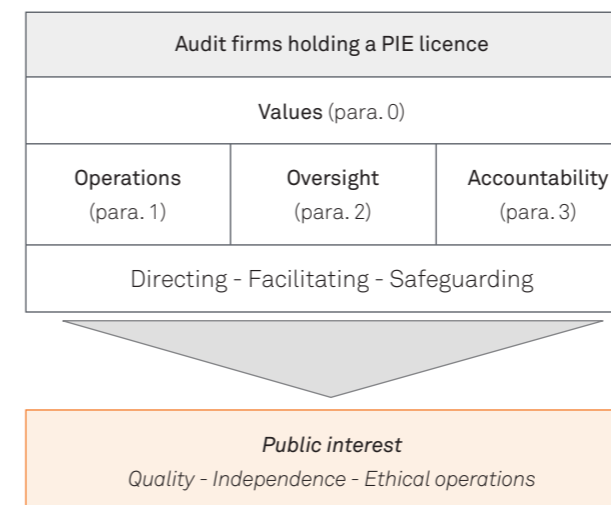
## 2.2 Design of the Code

The Code comprises a number of principles, which form the basis for its provisions, similar to the structure of the Dutch Corporate Governance Code.

The Code describes three governance principles that are fundamental to safeguarding the public interest. They are:

1. The **operations** principle
2. The **oversight** principle
3. The **accountability** principle

<sup>1</sup> This involves not only an independent auditor's report on a set of financial statements, but all types of reporting documents produced as part of an audit firm's assurance work.



## 2.3 Status of the Code

The Code contains a mixture of principles and rules, and compliance will not be optional. The Code's principles and provisions will need to be complied with at all times. In contrast with the Dutch Corporate Governance Code, no "comply or explain" approach is used, given that the principles apply universally and offer sufficient scope for them to be tailored to a firm's nature and size. It is noted for clarity's sake that it has not been the intention for the Code to depart from the professional practice rules. Where there is a discrepancy in terms of interpretation between the professional practice rules and the Code's principles and provisions, the former will prevail.

The Code will be implemented by means of a covenant to be signed by all audit firms that hold a PIE licence. Compliance will be monitored by a committee of independent experts to be set up by the NBA.

The Code focuses primarily on output, which means that audit firms will have sufficient scope for designing their own structures and quality control systems, provided these meet the Code's principles and provisions and other relevant rules and regulations. This is all the more important, given that most audit firms form part of increasingly integrated international structures. It would be unfortunate if a Dutch code had a mandatory effect on a deliberately chosen international structure, although that international structure will need to facilitate the output required.

## 2.4 Definitions

**Audit firm:** an audit firm licensed to perform statutory audits pursuant to Section 6, paragraph 2, of the Dutch Audit Firms (Supervision) Act.

**Board:** natural persons who hold formal positions as an audit firm's executive.

**Independent third person:** a natural person who is unrelated to the audit firm or the network of which that audit firm forms part and who is not a former partner who has left the audit firm less than two years ago or has remaining financial interests in that audit firm or its network.

**Network:** a collaborative structure within the meaning of Section 1, paragraph 1, sub-paragraph j, of the Dutch Audit Firms (Supervision) Act.

**Transparency report:** a report within the meaning of Section 19, paragraph 3, of the Dutch Audit Firms (Supervision) Act, in conjunction with Section 30 of the Dutch Audit Firms (Supervision) Decree (*Besluit toezicht accountantsorganisaties*).

# 03 | Code for audit firms

## 0. Values

An audit firm should safeguard the public interest of the independent auditor's reports and other communications by providing high-quality and independent assurance services, supported by a solid governance structure and ethical business operations. In balancing all the interests, the public interest of the auditor's communications should always come first and that interest will always outweigh the commercial interests of the audit firm and its network. Accordingly, advisory services performed in the network should also be taken into consideration.

An audit firm's board should actively support the five fundamental principles that characterise individual auditors - integrity, objectiveness, expertise and due care, confidentiality, and professional conduct - while fostering a culture of openness and dialogue with due observance of those principles.

### 0.1 Exemplary role ('tone at the top')

An audit firm's board should actively promote, both internally and externally, the fundamental principles set out in the Dutch Code of Conduct Regulation and therefor fulfils an exemplary role. Boardmembers should be committed to ensuring compliance with the fundamental principles at all organisational levels and should monitor such compliance.

### 0.2 Internal code of conduct

An audit firm should draft an internal code of conduct describing and elaborating on the values and principles of the Code for Audit Firms. It should place the code of conduct on its website. The board should undertake to ensure and enforce compliance with the code of conduct by periodic review, and report in its transparency report on an annual basis.

### 0.3 Accountability of the governance structure

An audit firm should publish on its website how the governance structure operates and how the principles of this Code have been complied with. It should also include the names of the boardmembers and oversight bodies, as well as the appointment procedures, terms of office and other relevant personal details.

## 1. The operations principle

An audit firm's board is responsible for the firm's ethical business operations. It should foster good professional practice and actively monitor compliance with laws and regulations. To mitigate risks, the board should maintain a system of internal control. An HR policy should also be in place, including a remuneration policy, that is designed to support service quality and independence, ethical business operations and the associated core values.

### 1.1 The importance of public interest

The board ensures that the public interest of auditor's reports is embedded in its own considerations and decision-making.

### 1.2 Appointment, assessment and remuneration of boardmembers

The ability to serve the public interest should be of overriding importance in appointing, assessing and remunerating of audit firm's boardmembers. Quality should be the decisive factor in remuneration. An audit firm should place the policy underlying the remuneration of its boardmembers on its website.

### 1.3 Quality control

The board should pursue a quality policy that satisfies the relevant statutory requirements and the national and international standards governing audit, quality control, ethics and independence. The board should assess on a continuing basis whether the audits are of an adequate quality, have been performed with the required professional scepticism and have been adequately documented. It should take remedial action in areas in which regulatory or supervisory authorities have expressed their concern by means of reports or communications addressed to the relevant audit firm or to audit firms in general.

### 1.4 Human resources policy

The board should ensure that an HR policy is in place, including a policy governing partners and including the granting of fixed and variable remuneration, that supports the fundamental principles and the ethical operations based on them. Each year, in the transparency report, the board should report on the implementation of its HR policy, including the remuneration and sanctions policy and the outcome and follow-up of the employee satisfaction surveys, given that the level of employee satisfaction may have a significant impact on engagement quality.

### 1.5 Risk management

The board should ensure that a system of risk management is in place, as well as a system of regular assessment and adjustment, and it is responsible for the effective implementation of risk management. In the transparency report, the board should report on the key risks associated with the audit firm's strategy, of the design and effective operation of the risk management system, including the outcome of assessments, and of the embedding of the public interest in decision-making.

### 1.6 Complaints

Management should ensure the adequate operation of whistleblowing and complaints procedures, which should also be placed on the audit firm's website. Each year, in the transparency report, account should be rendered of their operational effectiveness.

## 2. The oversight principle

An audit firm - or its network - should have a public interest committee in place that forms part of a national or international oversight structure and that monitors how the audit firm safeguards the public interest of auditor's reports. The committee should have two or more members, the majority of whom should be independent third persons.

### 2.1 Oversight body

An audit firm's owners or partners should ensure expert oversight on the audit firm's board, setting up an oversight body that may be positioned within a national or international oversight structure.

### 2.2 The public interest

A public interest committee should be set up in addition to or as part of the oversight body, whose members specifically monitor the safeguarding of the public interest of the auditor's report. Acting in their oversight role, the members should be involved in reviewing decision-making by the board, the quality control system, the remuneration policy, risk management, the procedure for handling reports and complaints, internal and external quality reviews, external reports, stakeholder dialogue and potential or actual reputational risks.

### 2.3 Duties and authority

The procedure for appointing the members of the public interest committee, as well as their specific duties and authority, should be documented in a charter that should, as a minimum, address the right to be informed and the resolution of differences of opinion with the board and/or the oversight body. If one or more independent members of the public interest committee decide to step down due to a difference of opinion with the board or the oversight body that cannot be resolved, the audit firm should disclose that decision. It should place the charter on its website.

### 2.4 Assessment and remuneration

The public interest committee should monitor the substance of and compliance with the policy governing remuneration of the audit firm's auditors, partners and boardmembers.

### 2.5 Report on findings

Each year, the public interest committee should issue a written report to the audit firm's oversight body, reporting on the way in which it discharged its oversight duties and on the state of affairs with respect to the safeguarding of the public interest within the audit firm.

## 3. The accountability principle

An audit firm's board should ensure the adequate provision of information to the members of the oversight body and public interest committee in a timely manner and of such quality necessary for them to discharge their duties. The board ensures open and active communications, fostering consultation and the exchange of knowledge, information and views. It renders account to internal and external stakeholders in a transparent manner so as to allow them to make the best possible judgement.

### 3.1 The audited financial statements, the annual report and the report on independent oversight

An audit firm should publish financial statements audited by an independent auditor and an annual report. As part of its annual reporting, it should publish a report from the oversight body. Annual reporting may also be performed by the network of which an audit firm forms part.

### 3.2 Transparency report

On its website and, where applicable, in the transparency report, an audit firm should describe how the Code's values (Section 0) and principles (Sections 1, 2 and 3) are applied and how the related provisions are complied with. The transparency report should also set out the outcome of internal reviews and of reviews by the regulators of the audit profession, including any remedial action taken, as well as the number of reports and complaints received.

### 3.3 Reporting findings

As part of its annual reporting or in the transparency report, an audit firm should also report the key findings of the public interest committee on the state of affairs with respect to the safeguarding of the public interest within the audit firm as set out in its annual written report issued to the oversight body.

### 3.4 Stakeholder dialogue

An audit firm should maintain an ongoing dialogue with its internal and external stakeholders, which include the shareholders of its listed audit clients as a minimum, and report on that dialogue in its transparency report. It should specifically describe the involvement of the members of the public interest committee in that dialogue.



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