
IN THE PUBLIC INTEREST

MEASURES TO IMPROVE THE QUALITY AND
INDEPENDENCE OF THE AUDIT IN THE NETHERLANDS

FUTURE
ACCOUNTANCY PROFESSION
WORKING GROUP

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IN THE PUBLIC INTEREST

SUMMARY

To provide trust you must first be trusted yourself. The accountancy profession has not always achieved that trust and has sometimes even neglected it outright. This is a cause for concern and the profession must therefore take measures which make it clear to stakeholders what the accountant represents and what they may expect from him or her. Expectations which the accountant must then fulfil*. This profession ought to have an attitude which places public interest above individual interest, which places quality above the maximisation of profits and which is driven by continued improvement of professional quality. Professionals who find their challenge in the provision of premium services in the public interest must feel attracted to this profession.

The culture within the profession must be in tune with this attitude. In order to achieve the right conditions for this the working group is proposing a wide package of measures. These focus primarily on the audit practices of accountancy organisations with an AFM licence. The most important measures are**:

In respect of the governance of accountancy organisations:

- a supervisory board with external members at the level of the Dutch top holding of the group to which the accountancy organisation belongs. This supervisory board nominates and assesses the board of directors and in addition to its general tasks undertakes specific supervision of the protection of public interests, in which audit quality is used as a guiding principle; and
- a board of directors which primarily focuses on management within the boundaries set by the supervisory board, including in respect of their time management.

In respect of the remuneration and earnings model of accountancy organisations:

- a profit-independent remuneration of directors, with a variable component up to a maximum of 20% and which is dependent on the achievement of long term objectives which are appropriate to the social function of the organisation;
- a leverage*** model which safeguards quality, in which there is scope for good coaching and supervision, and upon which public accountability is imposed;
- a quality-based remuneration and a claw-back scheme for audit partners, on which basis an element of the payment of profit entitlements is delayed for a period of six years and which expires in the event of culpable shortcomings resulting in social harm; and
- a promotion policy which assumes proven professional qualities.

In respect of the culture and learning capacity of the sector:

- the foundation of an independent research institute which has amongst its tasks the undertaking of analyses into the cause of faults and incidents;
- annual reporting by accountancy organisations on a prescribed set of quality indicators, on which basis accountancy organisations can be better compared and differentiation in quality can be made visible; and
- the introduction of a professional oath and compulsory periodic assessment of professional and ethical attitudes.

In respect of the improvement of the relevance of the audit:

- a compulsory extensive audit opinion and compulsory active intervention at the general meeting of shareholders (AGM);
- expansion of the management report and the splitting of the audit opinion into one opinion in respect of the annual accounts and an opinion in respect of the management scope; and
- more extensive reporting on the risks of fraud and continuity.

* Wherever this publication mentions "accountant(s)," this should be interpreted as "professional accountant(s)".

** See detail report for exact scope of each measure.

*** Partner/director-employee ratio

The problem

In developing our vision of the measures to be taken, first of all we listened. We attempted to understand how we are seen by others. We did this using analyses of public statements made by stakeholders, digital and physical discussion sessions and individual interviews with a wide group of interested parties. Naturally we also consulted accountants, but most of our interviews were conducted with supervisory bodies, academics, investors, non-executive and executive directors. This gave us a good idea of what in their eyes the profession does well and not so well, the concerns in respect of how we operate and what solutions to this are envisaged.

During these discussions we examined the role of the public accountant in society, the way in which the accountant fulfils his role and the extent to which this meets the expectations of stakeholders. We also frequently dwelled on the findings of the supervisory body and incidents which have harmed the profession. These incidents occurred in organisations with qualified professionals, in a strictly regulated environment. Time and again we asked how this could all happen, what correction mechanisms did not work in these cases and examined these questions in more detail together with stakeholders. We almost always encountered the same theme: culture and behaviour. If a culture exists in which quality is paramount, in which loyalty rests with non-executive directors, supervisory bodies, and social interested parties, in which contradiction and professional skepticism is highly appreciated, the risk of such incidents will reduce dramatically. If that culture does not exist, then it is a breeding ground for incidents in which people make the wrong choices. The working group has established that the booming economy in which current accountants developed professionally, combined with the lack of effective correction mechanisms such as external supervision, have led to a gradual neglect of elementary professional principles. The economic tailwind and the increases in turnover and profits prior to the outbreak of the economic crisis resulted in a culture of complacency, in which social developments could simply be negated or underestimated.

The economic crisis and the arrival of a critical supervisory body have ensured that those days are definitely over. Culture and conduct therefore constitute the most significant principles for the measures in our report.

Naturally, in addition to culture and conduct there are also other measures which influence the carrying out of the audit. Or measures which are to do with the nature and scope of the audit opinion and which therefore contribute to the relevance and effectiveness of auditors. These measures are also necessary in the long term in order to continue to fulfil social requirements.

The basis of the accountancy profession is however a mindset, which is imbued with the awareness that independence, a professionally critical mentality, expertise and quality of the audit are principles from which there can be no concessions. These principles must be present in the DNA of every accountant, of every accountancy organisation and therefore the entire profession. This then translates into a cohesive package of measures, focusing on three levels on which cultural influence is significant: the profession, the accountancy organisation and the individual accountant. Other parties also play a role, as part of the total chain which contributes to effective governance surrounding companies and other organisations.

Individuals can make mistakes. But as a sector we must ensure an environment in which the risk of this is minimised; where people are best motivated by the correct incentives to deliver good quality work and in which mistakes are learned from. In doing so it is not only important that measures positively influence the culture, mindset and quality within the firms.

Measures must also ensure clarity toward stakeholders regarding the way in which accountancy organisations and the sector is arranged; a way which suits the role fulfilled by accountants in society.

The measures

In our report we propose measures in seven areas, which complement and reinforce each other. Below we list the most important measures. For more details and backgrounds please refer to the full report.

1. Robust governance

The structure and governance of an organisation also influence the dominant culture within that organisation. We discussed the partner structure within many accountancy organisations with various parties. We concluded that this structure within a profession such as accountancy can in principle contribute to a joint drive toward quality. Too much internal focus, focus on profit and the restraint associated with it in the introduction of radical measures are however vulnerabilities in this model. That's why measures are required which anticipate these risks.

Organisation of contradiction, diversity, a critical look of outsiders and suitable checks and balances enrich the partner structure and contribute to a culture focused on quality. This requires the *establishment of a supervisory board with external members*, composed in line with the Corporate Governance Code (with a majority of external members and a maximum of one internal member) and which has clear authorities in respect of policy on audit quality and independence. In view of the public interest, the establishment of a supervisory board is compulsory for organisations which carry out audits of Public Interest Entities (PIE's)

Important tasks of the supervisory board include the appointment and dismissal of directors (via a binding nomination), together with the approval of the remuneration, appointment and quality policies of the accountancy organisation. Supervisory board members are appointed and dismissed by the supervisory board itself. This takes place on the basis of an exclusive and binding nomination to the meeting of shareholders, which can only withhold its approval on formal grounds. Part of the appointment of supervisory board members is a suitability assessment carried out by the AFM. The board of directors must be composed in a sufficiently balanced way and *directors must primarily spend their time on their management tasks*. A limited portfolio as an auditor is possible, however only with the consent of the supervisory board.

2. 'Competing on quality' as a basis for the earnings model

The current earnings model emphasises a commercial supply of services. Competition in the market forces efficiency and innovation, which ultimately yields benefits for the market and society. The working group has maintained the principle of private enterprise. An accountancy organisation ought to be an organisation which is driven by professionals, which has quality as its main priority and which competes on that basis.

A market environment can nevertheless lead to undesirable incentives, for example if efficiency focuses primarily on increasing individual income, to the detriment of the service quality. One of the ways this manifests itself is in high leverage on audit assignments, with an undesirable productivity pressure on employees, insufficient knowledge transfer and defective audit quality.

The working group is of the opinion that the drive for efficiency must take place primarily for the benefit of quality and innovation. This implies low leverage, therefore more partners on fewer assignments.

No clear standard exists in this area and the required innovation and automation of the audit will also continue to change the ratio. That's why the working group suggests that it should be *compulsory for organisations to publish the standards which they impose and the leverage achieved* in transparency reports, along with a compulsory report on the hours and leverage per audit assignment issued to the supervisory board of the company being audited. This will promote (public) discussion and thereby also competition on this important aspect of quality.

We discussed the combination of audit and advice within one organisation with many stakeholders. Almost all stakeholders were against the splitting of current organisations and the introduction of audit-only firms. The working group shares this opinion. The expertise required for an effective audit of large, complex organisations, for example in the areas of valuations, tax, pensions and IT necessitates a wide availability of competencies under one roof. The board of directors must mitigate potential risks and conflicts of interest and the supervisory board must oversee this. The working group also makes a case for an increase in the number of organisations where the accountancy organisation may not both audit and advise (PIE's).

3. A remuneration and assessment policy with the right incentives

Formal and informal assessments, career opportunities and remuneration influence people's conduct and the culture within an organisation. It also determines which people wish to commit to an organisation and the conduct that they will both learn and teach to others. The remuneration policy and the incentives arising from it must be linked to the organisation's strategy and objectives. The working group is suggesting measures, the objective of which is to use remuneration policy to provide direction to a long term and quality-focused culture of accountancy organisations. Proposed measures which contribute to a long term and quality focus on the part of directors and partners include: the introduction of a *fixed profit-independent remuneration of directors, with a variable component up to a maximum of 20% based on the achievement of long term objectives, remuneration of partners based on role, responsibility and quality (over and above commercial considerations) and the introduction of a claw-back scheme for accountancy organisations which audit PIE's*. Sub-standard quality performance must have consequences for remuneration (malus scheme). *Recurrence despite intensive guidance must lead to withdrawal of signature authority.*

Promotion policy in which *demonstrable work experience within a function which focuses on quality or professional development and good quality scores in file reviews* are conditions for continued development to a senior position makes it clear to the entire organisation what is required to progress within the profession.

All of these measures focus on allowing the (financial) incentives which individuals experience in an accountancy organisation to be linked to the long term objectives and function of the organisation.

The working group is of the opinion that the goodwill model (in which acceding partners must invest a significant amount of capital in order to acquire a share in the organisation) is not compatible with the introduction of an extensive package of remuneration and other measures which focus on quality. This is in view of the high level of external financing required for capital injection and security required by the bank. The working group is therefore of the opinion that the sector must begin a careful process which is aimed at *phasing out the goodwill model*.

4. Constant quality monitoring and improvement

The quality of the audit carried out cannot be assessed properly by users of the annual accounts and the accompanying audit opinion, who do have an interest in that quality. All stakeholders have an idea of things which contribute to audit quality, such as good coaching, training and investment in modern audit methods, such as data analysis. According to the working group, clear and compulsory *reporting* of objectives and results, based on sector-wide, defined quality indicators contributes to the understanding of stakeholders in respect of the extent to which an accountancy organisation invests in quality and the results of this. This enables joint comparison of these aspects. This will stimulate competition on quality and as a consequence of this also the investments which accountancy organisations make in this area. In terms of indicators, investment in training (hours), functions which focus on the profession and professional development, the ratio of partner and team hours (leverage) and the assessment of employees on coaching received, but also the results of internal and external reviews, are all things which could be considered.

The working group also proposes that the sector takes the initiative for the design of an *independent scientific research institute*. This would contribute, amongst other things, to further insight into issues which may or may not influence audit quality, or which are the cause of failures, and would shape the future of the profession. The profession must provide data, people and resources for this purpose.

Important guarantees of quality are internal reviews and the organisation of contradiction, before an audit opinion is issued. In order to achieve this, the working group proposes an *increase in the number and depth of engagement quality control review (EQR)*. If an audit partner is assessed as being below standard on quality an intensive process of improvement must be embarked upon, which must include an intensification of the number of EQR's on the files of that partner.

The working group also proposes the introduction of an audit standard which is stronger than it is now, *in the event of a change of auditor, renders both auditors responsible and liable for the full transfer* of all relevant information which the new auditor requires to carry out an effective audit.

5. A learning profession

Robust supervision is important for trust in the accountancy profession. The working group is making the case for increased transparency toward society over the performance of accountants and the consequences of inadequate performance. Taking sanctions is however not the only, or most obvious way to acquire better insight into the actual causes of a poor quality audit and to arrive at an improvement in professional quality. In order to achieve that, learning from mistakes must be more institutionalised. The working group proposes that files in which mistakes are evident are submitted to the independent scientific research institute which will use these cases for so-called root-cause analyses. Compulsory reporting via a mechanism which is similar to that currently used by the Dutch Safety Board ("blame-free reporting") can increase willingness to cooperate and thereby increase the speed of the learning cycle. This requires further research.

The results of these analyses, but also of Accountant's Court procedures, reviews and AFM research is used by the NBA for the public good, any adaptation of professional standards and education, including a *two-yearly compulsory PE-training session 'lessons learned'*.

6. Measuring culture and communication

Culture and conduct form the basis of our report and many of the measures we propose address this issue. Quality and a professionally critical mentality must be present in the DNA of every accountant. This begins with the acceptance of people and the way in which the profession profiles itself toward students. If people are accepted who choose the profession for the right motives, it is subsequently important that they operate within an organisation in which precisely those qualities are valued and allowed to develop. If this is not the case those qualities will swiftly be diluted, because people either adapt or leave. The influence of culture and mindset within accountancy organisations is therefore an important aim of our proposed measures. It requires constant attention, training, repetition of messages and also selection, so that ultimately people who fit in with the desired culture remain and others leave or adapt.

The working group is proposing a number of measures which are aimed at clear communication, both internally and externally, of what the profession represents and what mindset, culture and conduct are expected of every accountant. Thus the working group is proposing the *introduction of a professional oath and inclusion of quality and professionally critical mentality in the VGBA*. The working group also wishes accountancy organisations with a PIE-licence to carry out an evaluation of the *mindset and drivers* of the partner group, other managers and employees. On that basis an action plan is drawn up, in consultation with the supervisory board.

7. An effective reporting and audit chain

Interviews with stakeholders have taught us that the sector must provide clarity over the role of the accountant in the overall system of corporate governance. The expectations of stakeholders must be better fulfilled. Not by explaining that stakeholders have insufficient understanding of what our formal role is in the current system, but by meeting real wishes and expectations and remaining relevant in that way to those stakeholders.

Many organisations appoint an accountant because this is a legal requirement. This has not always been the case. The profession was created in a time when, as part of free market operation, parties who entered into commercial relationships with each other had a need for an opinion on financial accounting by an independent, financially expert party: the accountant. The accountant was then appointed at the request of the shareholders or the bank and paid indirectly by those parties. The working group has established that this clear situation has become diluted. It is now less clear to many people who exactly appoints the auditor, what his role is and to whom he is accountable. If the accountant does not return to a clear role, in the interest of clearly defined stakeholders, it will be difficult for him to fulfil everyone's (real or otherwise) expectations.

The working group therefore proposes measures on the basis of which *commissioning* returns *unconditionally to the supervisory board or shareholders* of the company to be audited; only in a formal, but also in a material sense. The accountant must also agree the *fee with the supervisory board*, as a result of which it is not those being audited (the management) who determine what is paid, but the supervisory board set up by the shareholders.

Criticism of the performance of accountants in recent years has often focused on the inability of accounts to predict bankruptcies or uncover fraud. In the opinion of the working group it is important that accountants report more clearly and more explicitly and provide a realistic picture of their role in these areas. Clearer reporting on risks, continuity and other important matters is regulated by an *extended audit opinion on the annual accounts and an obligation to active intervention in the general meetings of PIE's*. The role of the auditor in relevant sections of the management report must be clarified, particularly in respect of risk management, strategy implementation, governance and continuity. This must result in an *audit opinion on the management report or, if possible, a separate opinion within the audit opinion*.

As gatekeeper to the detection of and fight against fraud, the accountant can and must play an important role. It is therefore proposed that in the audit *more attention, time, people and resources are spent on the risk of fraud*. In the opinion of the working group the interaction between the accountant and the supervisory board is significant in this respect. In the working group's proposal, *the auditor reports explicitly to the supervisory board on the risks of fraud, with potential material impact on the annual accounts and over his contribution to its prevention*.

In order to stimulate innovation, to enable more assurance which is attuned to stakeholders and to allow the accountant to continually prove his added value to stakeholders, the working group wishes the NBA to make a positive contribution to the already announced research into the *increase in the limits of the compulsory audit*, within the thresholds recently defined by the EU. Simultaneously, the working group makes a case for the *expansion of the number of organisations to which the PIE format applies*, for example housing associations, care and educational institutions, provinces and local authorities. For those organisations the requirements relating to rotation and the separation of audit from advice would then apply, in addition to other similar requirements.

Implementation and monitoring

The working group is of the opinion that the proposed measures will strengthen the profession and that they are achievable. In doing so the working group has taken into account the international environment in which certain companies and accountancy organisations operate, but also the smaller organisations and the measures attuned to the target group. An audit which is better in quality is in the interests of users of the annual accounts and therefore also in the interest of the reporting companies, because this contributes to trust in the information reported by those companies. The proposed measures can thereby deliver a direct contribution to the improvement of the Dutch business and investment climate.

It is important that the measures are seen in combination with each other, since they interact with each other and jointly provide the conditions in which the desired culture and mindset come into their own. The working group considers it to be realistic that accountancy organisations absorb the measures within their own cost structure where possible, which is anticipated to have a suppressing effect on incomes.

The measures outlined have been proposed by the working group and are supported by the steering group. It is now down to accountancy organisations and professional organisations to implement these measures as swiftly as possible. Implementation begins immediately after the publication of this report with the drafting of a letter of intent and an implementation plan, containing the principles and measures to which accountancy organisations must commit. Parallel to this the measures will be incorporated in NBA regulations where possible, which will be implemented in the usual way (including approval by the members' meeting.). As a result they will apply to accountancy organisations which have not (yet) explicitly committed to them. Accountancy organisations account for (for example in the transparency report) the implementation of the measures and their own supervisory board supervises their implementation.

The working group proposes to monitor on an ongoing basis the implementation, operation and effects of these measures and to appoint an independent monitoring commission for this purpose, which report annually. Naturally the working group assumes that the AFM will monitor the introduction of these measures on an ongoing basis as well.

Amsterdam, 25 September 2014

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1. INTRODUCTION

Why have we, the seven members of the working group, undertaken the challenge this summer, the result of which is this report containing proposed measures? We have chosen a very demanding profession, in which we encounter intellectual, professional, communication and personal challenges on a daily basis. A profession in which we wish to make a worthwhile contribution to the functioning of the financial markets and trust in financial information on the basis of the correct basic attitude. A system in which accountants are an important link in the overall governance surrounding corporations and their stakeholders. We take it to heart when we see that trust in the way we operate is under discussion. We, together with our many professional colleagues, represent a powerful profession in which quality, expertise, professional skepticism and reliability are implicit. To make a contribution to that profession is an honour and a responsibility which you do not walk away from.

The accountancy profession is under fire. Society is critical of the functioning and actions of accountants. It is up to the sector to regain trust. This was also the message during the General Consultation in the House of Representatives on 14 May 2014. The profession itself must propose measures which ensure justifiable trust in the quality and independence of accountants.

As a working group we picked up this gauntlet. With backing from the steering group we were allowed complete freedom to arrive at a vision over measures which create the conditions for a future-proof profession. In developing this vision, first of all we listened. We attempted to understand how we are seen by others. We did this using analyses of public statements made by stakeholders, digital and physical discussion sessions and individual interviews with a wide group of interested parties. Naturally we also consulted accountants, but most of our interviews were conducted with supervisory bodies, academics, investors, non-executive directors and directors. This gave us a good idea of what in their eyes the profession does well and not so well, the concerns in respect of how we operate and what solutions to this are envisaged. An image of criticism, but also of appreciation and nuance.

From this broad input the working group has made an analysis of the potential causes of the inadequate performance of accountants, potential measures and the advantages and disadvantages of those measures as we look to our ultimate goal; to regain trust through transparent assurance of quality and independence. Not by tackling symptoms but through a structural approach in which a quality-focused culture and come into their own. This then translates into a total package of measures, focusing on three levels to which cultural influence is significant: the profession, the accountancy organisation and the individual accountant. In doing so we emphasise that this involves a total package and all measures play a joint role in the goal to be achieved. For these reasons we opted to group the measures by domain and in doing so not to allocate an order of importance.

To provide trust an accountant must first be trusted himself. The appeal in the motion by Henk Nijboer shows that this trust must be reinforced. Why have the relatively recent introduction and announcement of a multitude of measures, with an anticipated positive effect in the areas of both independence and quality, not led to the trust that accountants will carry out their role properly? We are thinking here for example of the: the introduction of an external supervisory body (Financial Markets Authority, AFM) in 2006 on the basis of the Wta (Audit Firms Supervision Act), implementation of the audit firm's Code and the resulting public interest committees in 2014, tightened rules on independence and recommendations for PIE's from 2013, rotation for PIE's from 2016 and the Regulation on Independence for all auditors from 2014), compulsory training and the announcement of measures which from this year will make quality more visible such as office-specific AFM reports and the publicising of disciplinary measures against individual accountants via the accountants register.

In view of the time they were introduced, the effect of many of these measures cannot yet be measured, but is anticipated in the long term.

Do stakeholders perhaps have such little trust that the will to change is coming from accountants themselves? The intrinsic will and motivation to do what is right from within the role and responsibility of the accountant, with a view to his long term relevance, requires a particular. A mindset of the individual concerned, a mindset of the office and a mindset of the profession in which this basic attitude is appreciated and can develop further. Then we are talking about a culture within offices and within the profession which attracts and retains precisely those people who possess the qualities suitable to the role of the accountant as desired by stakeholders. Saying goodbye to people who are not suited is also a part of this. The working group is therefore proposing a number of measures which have the aim of reinforcing that culture. The working group considers this to be of greater importance than tackling potential symptoms or influencing perceptions without them having an enduring effect on culture and behaviour.

In doing so, the working group noticed that accountants impose upon themselves the vast majority of the rules which reinforce independence and quality (via the professional organisation the NBA) without legislation being brought to bear. As far as we are concerned this will probably also be the case as far as our proposals are concerned. The outside world however appears to perceive things differently in many cases (accountants do not change of their own accord, but only when they are forced to by regulations). The working group sees an important action point here for the NBA: more profiling as a representative of the profession (as standard setter and collective industry representative) and thereby the profiling of the entire profession. More generally, the working group has established that the roles and responsibilities of all the parties involved in the chain (company management, non-executive director, shareholder, accountant, supervisory body etc.) require clarification for many stakeholders and even for accountants. What we have learned from the input of stakeholders is that the NBA's role and position in this therefore demands a separate evaluation. This evaluation has not been undertaken by the working group, however the working group is of the opinion that this evaluation is necessary and must take place within two years.

Following an initial general analysis and a number of prior considerations, the first chapters of this report concern culture and conduct (chapter 4) and two tangible aspects which have a significant effect on this, namely structure and governance (chapter 5) and appreciation and remuneration (chapter 6). We subsequently go into greater detail concerning the assignment, the client and the accountant's reporting (chapter 7) and a number of measures which are directly related to the quality of the audit (chapter 8). We then (chapter 9) look at the way in which we can learn from mistakes more effectively.

The public (auditing) accountant fulfils an important role within the total system of reporting, governance, control and supervision. In this report we set out the measures we propose to take from within the sector. The auditor however is just one link within this system. A system which only works if all of the links accept their responsibility and contribute to reliable financial information. Figure 1 Contains an illustration of the various bodies, parties, stakeholders and supervisory bodies who (must) play a role in the total system of corporate governance aimed at relevant and reliable information provision.



Figure 1: Parties to the governance system surrounding relevant and reliable financial information

That's why we also place the proposed measures in a wider context and we indicate where we see the need for essential changes to the total system and how the role of the other parties involved should or must be strengthened. This is a significant success factor for successful implementation of the proposed measures. In chapter 10 we identify a number of measures which relate to other parties who form part of this system.

Accountants do more than just audit the annual accounts. They can carry out several and joint functions. In this context the NBA assumes three member groups: the public accountant, the accountant in business and the internal and government accountant.

REGULATION OF THE PROFESSIONAL PROFILE OF THE CHARTERED ACCOUNTANT

The functions of the chartered accountant

The chartered accountancy professional qualification encompasses expertise acquired through training and work experience and registration in the Order's accountants register. The expertise acquired can be utilised in various ways at the instruction of or in the service of large, medium-sized or small organisations and in several functions. A chartered accountant who works as a public accountant, government accountant or internal accountant has as his core task the provision of additional assurance concerning the available information, processes and systems relating to organisations. The core of professional content is expressed explicitly in the aforementioned core task and in the audit function. The accent must be on this in the description of professional profile.

The public accountant defined in the code of Conduct Regulation is a practitioner of the free profession of accountant who undertakes professional services at the instruction of clients. The specific work area of the public accountant encompasses the auditing of companies' annual accounts and institutions. The public accountant can also undertake other assurance, assurance-related and other assignments, as defined in the code of conduct Regulation.

(..)

the activities of the chartered accountant

Chartered accountants may undertake a wide variety of different activities, for which their specific expertise is required and utilised. In addition to audit expertise the chartered accountant is expected to possess subject-specific knowledge and skills in commercial, fiscal and legal fields and in respect of the internal and administrative organisation, internal management, information system and reporting. In view of the breadth of potential work areas and the varied nature of the activities, this professional profile suffices with a non-exhaustive summary of duties which are characteristic of the chartered accountant. Duties may include:

- research into historical or forward-looking information, systems and conduct, usually focusing on the supporting documentation relating to it;
- research with a particular aim and the undertaking of specifically agreed activities concerning financial and other accounting. These may include: credit assessments, investigations into the extent of damages suffered, research associated with the determination of goodwill, the transfer or merger of organisations, suspension of payments, bankruptcy, research for the purpose of the provision of an announcement in prospectuses in the event of emissions, forensic duties, including fraud investigations, together with investigations into compliance with corporate contracts and legislation and regulation;
- administrative service provision in the broader sense, including the compiling of financial reports;
- advice in the area of management information provision (administrative organisation and internal management) and the provision of technical fiscal and commercial advice.

REGULATION ON PROFESSIONAL PROFILE AA 2010

An AA is an accountant who primarily works for organisations in small and medium enterprise (SME), in agriculture and horticulture, for practitioners of the free profession and for associations and foundations. In doing so the AA acts as the all-round advisor to an SME entrepreneur as a result of which a close and long term relationship of trust arises.

(...)

In order to describe the profession of the AA robustly and succinctly, four Critical Professional Situations (CPS) can be distinguished. These CPS's are characteristic of the functioning of AA's. (...) The four CPS's for the profession of AA are as follows.

1. Situations of assurance assignments

The statutory or voluntary addition of a reasonable degree of assurance to (financial) information for the benefit of those involved, by carrying out duties which result in the provision of the correct reporting. Situations of assurance assignments consist of both the general and the specific (for example: input and subsidy declaration) audit assignments and assessment assignments and research into forward-looking financial information (this last type of assignment for example expressed in a research report, not a declaration).

Independence is very important in situations of assurance assignments.

2. Situations of assurance-related assignments

The addition on a voluntary basis of value to (financial) information for the benefit of those involved, by carrying out duties which result in a report. Situations of assurance-related assignments consist of specific, agreed duties relating to financial information and assignments involving the compiling of financial information. In situations of assurance-related assignments, a report is compiled which is free from material discrepancies, where for example in a case of a compiling assignment the accountant is engaged for his expertise in the field of reporting.

3. Situations of administrative and fiscal service provision

The provision of the requirement for external and internal information, by the systematic processing of financial facts and events. Situations of administrative and fiscal service provision relate to implementation work such as administrative service provision, the creation of fiscal statement(s) and implementing salary administration.

4. Advice situations

In advice situations advice/recommendations are provided (pro-actively) which is aimed at changes/renewal. In advice situations the AA manages financial administrative assignments, assignments relating to the commencement, takeover, monitoring and termination of corporations, financing situations, fiscal, economic, social and legal advice and share transactions.

Of the approximately 19,000 currently active accountants (RA and AA) who are registered in the register, only 9,000 work as public accountants. Another 9,000 work as accountants in business and 1,500 as internal or government accountants.

Many accountants therefore are not auditors, but within corporations and other organisations they fulfil an important role in the management of risks, the configuration of processes and systems and the generation of reliable information. Society's attention and the calls of politics focus on the work of the public accountant who carries out audit work ('auditor') and the accountancy organisations in which they work. But it also applies that accountants who are active in roles other than that of auditor are an important link within the overall system of corporate governance. They can ensure that a qualitatively good audit is made more possible. Measures which supervise accountants in business and internal and government accountants however form no part of this report and the working group has at this stage undertaken no analysis of the functioning of these groups of accountants. The report focuses primarily on measures which concern the quality of the annual accounts audit. Where relevant we have included the wider network organisation in this and have proposed measures at the level of the Dutch top holding of the organisation of which the accountancy organisation forms part (hereinafter the "Dutch top holding") whenever we considered this to be necessary for the quality of the audit. Within the scope of our assignment we have not proposed any measures which primarily supervise the quality of other service provision within the network organisation.

In chapters 11 and 12 we conclude with proposals for the implementation and evaluation of the proposed measures.

2. PROBLEM ANALYSIS - GENERAL

The accountancy profession is under a magnifying glass. The accountant plays a relevant and important role in society and we must therefore expect society to regard us critically. So we must instil confidence in society that we do our work well and that they can rely on our opinion. Unfortunately we do not always live up to this expectation and society experiences the consequences of this. And where in the first instance this appeared to be a case of isolated incidents, the linking together of these indicated a structural problem. This assumption was emphatically confirmed by the AFM reports of recent years, in which sector-wide shortcomings in audit quality were discovered. It is therefore hardly surprising that social mistrust over our services increased.

WHAT STAKEHOLDERS SAY¹

“The general line is that all too often the audit files are not in order and that the actual quality of the audit is not up to standard. Sometimes items are not properly established or insufficient work has been done to be able to support the final audit. (...)

These are things which the entire sector needs to work on. The Big Four have already taken steps in this direction. WE cannot yet measure its effectiveness. But we are hopeful.”

Gerben Everts, AFM

“Fortunately we have been able to establish that two firms had already installed safeguards to bring the auditing of housing associations up to the right standard prior to the Vestia debacle and two firms after it. So we see that it is possible, that improvements can and are being made.”

Gerben Everts, AFM

“I do not belong to the group which takes part in the “naming and shaming” of accountants on a daily basis. I can see that extremely serious work is being done. But there are good and bad accountants. The bad ones do not appear to have their audit files in order, have made insufficient enquiries and trusted the information provided too much. That is simply a weak partner. Often the same person makes the same mistake in several

companies. Partners are currently assessed annually. I think that's good.”

Louis Deterink, curator

“There are people who still refer to incidents, but that is becoming increasingly difficult. When you consider the series of incidents, you can discover a pattern. In any case these are very disturbing signals. One of the main questions which is on the agenda today is if the government should react and take action and on which points. Reaction could be a change in the law. Action could involve being a more active supervisory body.”

Jeroen Dijsselbloem, minister

“Dijsselbloem is right in my opinion. We have suffered a few scratches and scars. Non-compliance with the ideal of social interaction. Measures and solutions must be directly effective. No half measures and false solutions. No broad rhetoric, but surgical precision. No abstractions, but definitive matters. Money where the mouth is.”

Marcel Pheijffer, professor

“There are sevens and there are nines, but there are too many twos and threes.”

Henk Nijboer, PvdA

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“The Audit Alert published by the NBA has made it clear that there is still too much uncertainty in the turnover accounted for institutions. In doing so accountants, given their social responsibility, have played an important role in signalling the problems and have subsequently been actively involved in the consideration of how this can be resolved.”

Edith Schippers, minister

“The accountant has an important role in social interaction. It is time for him to pick up that role once more.. With his legal audit task, knowledge and experience, the accountant is extremely suited for the task of critically assessing the management of companies for the benefit of social interaction.”

Geert Koster, VEB (Dutch Shareholders Association)

“Take Philips, I'll tell you something. (.....) Give me your annual accounts Give me half a week, I'll take a good look at them and I'll tell you whether they're right or not.”

Matthijs van Nieuwkerk, DWDD (Dutch TV presenter)

“But it is particularly unfortunate for society, because it is society which has a problem. Accountants can make that problem manageable, but they cannot remove it. In the current debate it appears however that accountants are the root of the problem, which can only lead to disappointment. The problem is not new.

(...)

Subsequently everyone can put forward his or her preferred solutions: separation of control and advice, salary ceiling, better governance of firms, no oligopoly of the Big Four, recruitment by the supervisory board, unlimited liability, audit opinion with an opinion on continuity, stricter supervision, government accountants, and so on.”

Kees Camfferman, professor

In addition to the AFM's factual findings, the way in which accountants work is done, along with the communication about it, is a significant cause of the negative perception. For years society has seen too little of what we do and what we represent. The major part of our work takes place behind the scenes and results in a standard audit opinion on the annual accounts or other reporting information. Society therefore has to trust that the accountant always does his work well and carefully and that the audit is supported by sufficient audit evidence. That cannot be expected of society when there are reports of accountants who do not do their work properly in all cases or who act contrary to the law or societal norms. The only information upon which society can base its opinions is to be found in those reports. It is also evident from our interviews that certain stakeholders expect more from us than we think may be expected of us, for example when it comes to continuity or fraud.

More than once we heard the comment that we simply have to ensure that no more mistakes are made. If quality is not discussed then there is no further reason for other discussion on the way our profession is organised. This is partly true and part of our proposals is therefore naturally intended to further increase quality and independence. However, there will always be incidents. Even if it is

¹ The statements by stakeholders which are included in this report were mostly derived from public media, such as the Financieele Dagblad, Accountant.nl, Accountancynieuws and other media their aim is to provide an illustration of the various comments we have encountered during this process. In compiling this report the working group has assumed that the statements have been correctly quoted in the media.

because the audit is not designed to provide absolute certainty, but a reasonable degree of certainty. Because even accountants cannot predict the future (continuity) and because differences in opinion can always arise when it comes to the interpretation of (reporting) legislation or the assessment of estimates. Or because the audit as we now recognise it is for the most part people work, just like the administration which forms the basis for the annual accounts. And even those incidents will be picked up by the newspapers and portray the profession in a negative light. Of course we also see positive news about accountants. Recent examples are the role of accountants in care (Edith Schippers May 2014) or in respect of property valuation (Gerben Everts May 2014). News about negative incidents will however always have a significant impact on society's perceptions.

Based on analyses of public statements, the various debates and discussions with stakeholders, the working group has established that the perception of the audit quality delivered by accountants varies for each stakeholder group. A non-executive director who we spoke to for example, emphasised that he was very satisfied with the quality of the work and the professionalism of accountants he had encountered in his supervisory role with a number of listed companies. He was of the opinion that it went wrong in the discussion when accountants, and/or society, think that the accountant works for the whole of society and should identify and prevent all of the problems within companies which may be a problem for society.

For example directors and internal auditors are in general also positive about the work of the accountant. They see a growing societal need for security in society, but wonder if that security should come from the accountant. Various stakeholders indicate that it is important for the role of the accountant to be defined more clearly and that corporate governance in the Netherlands should be reinforced to ensure that the system as a whole provides the desired information and security. One stakeholder for example stated that it is peculiar that the shareholders appoint the supervisory board to supervise the board of directors on their behalf, but that the accountant is then expected to² also supervise the supervisory board and the AFM then also supervises that. His opinion was that the role of the accountant should be restricted to the audit of historical financial information and that the remaining aspects should be regulated elsewhere in the governance process. Others are however clearly less satisfied with the role fulfilled by the accountant and foresee a much wider role and responsibility for the accountant. These variances are in common with the findings of the Financial Reporting Council (FRC) in Great Britain which were based on interviews with stakeholders³. In brief, the FRC established that parties which are directly affected by the work of accountants (according to the FRC this includes management and audit committee) place more trust in the work of accountants than parties at a great distance from the work of accountants (according to the FRC journalists and academics). Politicians, civil servants, supervisory bodies and investors find themselves in a middle group for both the degree of involvement and the level of trust. Logically this also applies to the suggestions for measures put forward by the various stakeholders. The nature and impact of the proposed measures are affected by the position occupied by stakeholders concerning the dimensions involvement and trust.

It could be tempting, as a reaction to public opinion, to adopt measures which address the perceptions of the most critical group, who are at a relative distance, or which focus on the eradication of symptoms. The working group did not choose this option. By the means of broad dialogue with a wide diversity of stakeholders, the working group has attempted to gain further insight into the problem and which measures may contribute to its resolution.

2 Throughout this document we use the masculine gender form. The working group emphasises that it attaches great importance to diversity within the profession and throughout where the text states 'he', this also understood to mean 'she'.

3 FRC report 'Improving Confidence in the Value of Audit'

The fact that shareholders express their concerns over the performance of accountants is in itself a clear problem which requires measures to address it. Opinions on the background to this dissatisfaction vary by stakeholder group, as set out below. Some parties are of the opinion that a solution must be sought in measures which enhance quality, others see the solution in the provision of clarity about our role and responsibilities. The working group's opinion is that both are important in order to achieve the desired goal: trust in our performance.

During these discussions we examined the role of the accountant in society, the way in which the accountant fulfils his role and the extent to which this meets the expectations of shareholders. We also frequently dwelled on the findings of the supervisory body and incidents which have harmed the profession. These incidents occurred in organisations with qualified professionals, in a strictly regulated environment. Time and again we asked how this could all happen, what correction mechanisms did not work in these cases and examined these questions in more detail together with stakeholders. We also took into account in-depth cause analyses which were undertaken in various accountancy organisations as a result of the findings of internal and external reviews. In accountancy organisations these analyses were designed to arrive at the so-called 'root-causes' of findings in the area of quality. The various cause analyses which the working group consulted show clear similarities, if we look at the root-causes of the quality problems discovered. Inadequate audit quality or filing in those cases in which they were established however do not provide a simple trace back to one specific cause and the working group therefore recommends further investigation into these causes (see measure 5.10). But a number of causes occurred more frequently:

- Lack of discipline in the consultation and application of current audit and other standards and elementary professional principles, including documentation and the understanding in detail and application of the applicable reporting requirements;
- The insufficient understanding of commercial processes and the internal management of what is being audited (including IT), which can lead to weak areas in the audit.
- Focusing too much on information which supports an item or opinion, instead of information which refutes it (professional skepticism);
- The insufficient creation of internal contradiction and in-depth review, including effective AQA procedures;
- Insufficient utilisation of people at the right level on an assignment (partners, directors, experts);
- Insufficient time and attention to coaching, guidance and review of team members.

The working group has included the aforementioned causes of quality problems, alongside the input from debate sessions and individual discussions, in the formulation of measures for the accountancy profession. As we then took a step further in the cause analysis, to gain further understanding of the underlying cause of the above points, we almost always arrived at the same theme: culture and conduct.

If a culture exists in which incentives are aimed at optimising profit and improving income, where loyalty is primarily to client relations and colleagues, and in which contradiction is not encouraged and organised, this creates a feeding ground for incidents in which people make the wrong choices. If on the other hand, a culture exists in which quality is paramount, in which loyalty is to directors, members of supervisory boards, and social interested parties, in which contradiction and a professional skepticism is highly appreciated, the risk of such incidents will reduce dramatically. We see examples of both cultures in the sector. The working group has also established that the booming economy in which current accountants developed professionally, combined with the lack of effective correction mechanisms such as external supervision, have led to a gradual neglect of elementary professional principles

in some of those of that generation. The economic crisis and the arrival of a critical supervisory body have ensured that those days are definitely over.

Influencing culture and conduct therefore forms the most important principle behind our report. Naturally, in addition to culture and conduct there are also other measures which influence the carrying out of the audit. Or measures which are to do with the nature and scope of the audit opinion and which therefore contribute to the relevance and effectiveness of auditing audits.

These measures are also necessary in the long term in order to continue to fulfil social requirements. But we concluded that in our constantly changing world, sustainable quality and quality improvement can only be guaranteed by measures which form the basis and guarantee of a culture which focuses on quality and quality improvement.

A major element of the measures therefore serves to ensure boundary conditions for the carrying out of good quality audits and to contribute structurally to the desired culture within the group. We consciously chose the term boundary conditions for this. As commented by many respondents, many audits are very complex and a great deal of expertise and care is required to fulfil all requirements, whereby a great deal of opinion-forming is required. The quality of an individual audit is determined to a great extent by the details of the implementation which must be carried out by the people involved. Whatever measures are proposed, what they must primarily achieve is that such boundary conditions are created that the risk of (human) errors is reduced as much as possible. Regardless of the governance-, penalty or remuneration models, regardless of the number of internal and external supervisory bodies and regardless of all other potential measures, such errors can and will occur. The important question is if and how we learn from them and how transparent we are about it.

Via existing and proposed measures, we can guarantee that our audits are of high quality and can withstand the test of criticism by ourselves and for example by external supervisory bodies such as the AFM. But it is still necessary to provide structure and transparency in information provision over our performance whereby we enable stakeholders to assess whether we are worthy of their trust. First of all it is important that our stakeholders properly understand what they may expect from us and what we represent. What is then purpose of the audit, what are an accountant's basic values? The interviews taught us that even relatively well-established stakeholders do not all have the same view and that the sector has still not succeeded in providing clarity on this. We must communicate more clearly on this subject. Subsequently a number of objective, measurable or observable measures, from which everyone can see that they provide the boundary conditions within which quality can thrive, contribute to the trust that the profession is focused on the provision of quality. Criticism shows for example that there is a need for clarity over the environment and structure within which accountants operate and the way in which quality can be guaranteed. Even where accountants themselves do not recognise the criticism of their performance and in assumptions about the internal organisation of and culture within the offices, it cannot be denied that there is indeed a problem if society does not sufficiently trust the work of accountants, as a result of a lack of clarity and perceptions of it. A clear structure and insight for stakeholders into the way in which accountancy organisations and the profession are organised and guaranteed quality contributes to the working group's opinion to the trust that stakeholders can and will have in the work of accountants. This also applies to detailed, clear and reliable information provision on definitive actions and outcomes which are related to the quality of our service provision so that stakeholders can form an opinion on this.

Innovation and learning capacity is also of great importance to the sustainability of the profession and the quality of future audits. Innovation however is difficult to prescribe and is often at odds with a strictly regulated environment. Innovation requires long term vision and is often driven by commercial motives, such as efficiency or market demand. For this reason the working group does not propose any measures which directly supervise the enforcement of innovation, even if that were possible. The working group does however suggest a number of measures which provide boundary conditions for

innovation. Just as, in addition to the promotion of scientific research, measures which contribute to a longer term focus of directors and partners of accountancy organisations and measures which enable the delivery of more bespoke work for stakeholders and in doing so to ensure the dynamics and development of the profession. Audit standards and supervision will have to be adapted constantly and in good time to these developments so that they do not have an inhibiting effect on development. We are also proposing measures which must ensure that the profession learns much more actively from things which go well and things which go wrong. A continuously learning profession is of great importance to ongoing quality and quality improvement.

A constantly improving profession, which lives up to stakeholder expectations and within which every organisation and within the entire sector everyone is aware that there can and may be no concessions on quality and acts accordingly. This is the aim which we are trying to achieve with the measures we are proposing.

3. PRIOR CONSIDERATIONS

3.1 Impact of measures already taken

More than once we referred to the fact that a great many measures have been taken in recent years and that they have not yet had the chance to prove their effectiveness. An important element of these measures has just been implemented or must still be implemented and will only have an impact on the sector in the longer term. The positive or negative impact of these measures can therefore only be assessed at a later stage.

WHAT STAKEHOLDERS SAY

“With its proposals for new conduct and professional rules for accountants, the Netherlands Institute of Chartered Accountants (NBA) is visibly on the right track to reinforcing the quality of the audit. Clear and controllable standards and rules of conduct, in particular relating to the independence of accountants, contribute to the regaining of trust in the accountancy profession.”

AFM

“The Financial Markets Authority (AFM) is convinced of the fact that the European Parliament (EP) and the European Member States reached agreement on 17 December 2013 on the reform of the accountancy market. The AFM anticipates that the compromise reached will contribute to the necessary improvement in the quality of statutory audits, the restoration of trust in accountants and the strengthening of the operation of financial markets.”

AFM

“There are always calls for even more legislation. We think that a whole load of legislation has already been put in place. We want that legislation to be allowed the time to do its work to put the sector back in order.”

Aukje de Vries, VVD (People's Party for Freedom and Democracy)

“The faction from the Labour Party asked for this debate because we have concerns about the quality, integrity and independence of accountancy. The House of Representatives has taken previous initiatives to do something about this. Mr Van Vliet has already referred to this. I am thinking about the separation of the audit and advice and the compulsory rotation of firms. More is needed however.”

Henk Nijboer, PvdA

“What can be improved? First of all the tightened legislation which was introduced two years ago by the four parties must first prove itself. Other tightened measures such as firm-specific reporting are already possible, but are yet to be implemented by the AFM. Rotation does not commence until 2016. But what does deserve attention right now is the remuneration model.”

Arnold Merkies, SP

“What the sector itself must do in the first place, in the light of this discussion and the events of the last few years, is take a further critical look at what has been designed in terms of self-regulation, what has been done to safeguard internal supervision and quality mechanisms and take further initiatives in that respect. I think that this is very urgent.”

Jeroen Dijsselbloem, Finance Minister

The measures passed in recent years include:

- Independence: separation of audit and advice and compulsory rotation for PIE's from 2013 and 2016 respectively, implementation of the Regulation on the Independence of accountants in assurance-assignments (ViO), which targets the entire profession in 2014.
- Quality and professional skepticism: implementation of the accountancy organisations code in 2013 (including leading to the establishment of public interest commissions), compulsory training sessions on professional skepticism (PKI) in 2012, 'Say what you see' in 2014 and the ISA knowledge test in 2014
- Supervision and its consequences: introduction of firm-specific AFM reporting in 2014 and publicising of disciplinary measures against individual accountants via the accountants register from 2014

We have taken note of the comment that the profession may not hide behind the measures proposed and adopted by the House of Representatives, since the profession initially opposed these measures. The working group sees this differently. Regardless of the source of the legislation it is relevant to include recently announced or recently introduced legislation in the assessment of the areas in which additional measures are meaningful. Certainly because the aforementioned measures have not been able to prove their effect.

We have also taken note of the opinion that these measures for the most part focus on independence and not directly on quality improvement. The working group agrees with this. The most radical measures for accountancy organisations involve compulsory rotation and the separation of control and advice in PIE's, with the aim of increasing the independence of the accountant. The working group considered the inclusion of these independence-focused measures particularly relevant in the context of the analysis surrounding multidisciplinary organisations; please refer to paragraph 5.2. for this. That this does not focus on quality improvement is an interesting discovery which we have heard from many stakeholders. Increasing the independence and enhancing the quality of are two different matters and measures which increase independence can even reduce the quality of the audit in some cases. Both aspects are important however and must be sufficiently balanced to achieve a good quality audit carried out by an independent auditor.

In view of the focus of the recently introduced measures on independence, the measures now proposed by the working group concentrate on the quality of the audit.

The working group has also considered whether it should be amended so that certain measures, or measures proposed in this report, which now only supervise the auditing of PIE or accountancy organisations which audit PIE's, are extended to non-PIE's and/or (certain) other accountancy organisations. Stakeholders stated pretty much unanimously that in their opinion it is not appropriate and could even be harmful to Dutch business to proceed with this. Many stakeholders do however see a need to reassess and possibly amend the definition of a PIE. Please refer to paragraph 7.4 for this. The working group shares this opinion. First of all it proposes to do something about expanding the definition of a PIE and then to assess its effects on the applicability of the existing and proposed measures, focusing on PIE's and accountants who audit PIE's. Independent of the results of this, whether further expansion of the scope of the measures is appropriate must be assessed at a later date.

3.2 International context

The larger accountancy organisations in the Netherlands, which audit the majority of PIE's are a part of the international networks. Before looking into measures to reinforce the sector, there is the important question of whether this situation is desirable or whether attempts must be made to terminate this situation and to disconnect the Dutch sector from the international sector.

It is clear to stakeholders that the Netherlands are not an island in the world which can be looked upon in isolation. It is important to internationally operating businesses that Dutch legislation is workable and effective in an international context and that no significant competitive disadvantages arise for Dutch businesses. This does not apply specifically to legislation surrounding accountants and the accountancy audit, but in a broader sense to measures which influence the business sector.

It is important for the quality of the audit that Dutch accountancy organisations also know how to connect to that large international network. For example this is important for the (effective) implementation of audits of international corporations. It is not without reason that the Big 4 firms have a large share in the auditing of large, international corporations. Such large networks are also important for the large investments which are needed in the profession, for example investment in electronic files, auditing software, data analysis and other innovations. The required investments amount to many hundreds of millions of euros and even amounts over EUR 1 billion are being talked about. The Dutch accountancy organisations naturally contribute to these investments in the current situation, but these investments cannot be realised from within a purely Dutch environment.

These networks can also provide extra guarantees of quality for example via international quality reviews and (the threat of) intervention in the event that elements of the network create issues for quality and reputation, as occurred recently in one of the accountancy organisations. Furthermore, international opportunities make the profession attractive to part of the future generation of accountants who make professional choices during their studies.

Some stakeholders currently indicate that they see a risk in the introduction of a strongly Anglo-Saxon driven model within Dutch accountancy organisations in the Dutch situation. It may therefore be necessary to introduce additional measures over and above the requirements which apply in Anglo-Saxon countries such as the United States and Great Britain which are of specific added value within the Dutch context. In doing so it must be remembered that many PIE enterprises operate internationally and their shareholders and stakeholders are to a great extent internationally-orientated.

It is therefore important that the measures which we implement in the Netherlands are workable in this international environment. And we must make optimum use of the benefits of international networks and where possible contribute to international consistency within the entire reporting and governance system surrounding corporations, without the losing sight of the specific Dutch situation. From an international point of view, the Netherlands has extensive regulation in the area of independence. Supervision is also firmly in place. However, extra requirements which actually enhance the quality of the audit must not be harmful to the Netherlands' competitive position. An audit which is better in quality is also in the interests of users of the annual accounts and therefore also those of the reporting companies, because these contribute to trust in the information reported by those companies. Naturally, costs and benefits must be weighed against each other in this case. What is however undesirable in the opinion of the working group, is conflicting legislation or legislation which is unworkable within the international context.

WHAT STAKEHOLDERS SAY

“In my opinion the Big Four are influenced too much by Anglo-Saxon audit influences and which I don't think have worked, especially during the crisis. We appear to have forgotten a number of our own audit standards like the movement of money and goods, but it is this that we should just promote, like a Dutch Audit Approach, perhaps just like Dutch Design.”

Fou-Khan Tsang, accountant

“The traditional separate federations of national firms have changed swiftly during the last ten years into an integrated network. ‘Bottom-up’ is increasingly making way for ‘top-down’.

(...)

The tendency toward integration of the large accountancy firms goes hand in hand with the needs of multinational clients, who must be able to rely on accountancy audits being carried out according to the same rules and protocols all over the world.”

Jeroen Piersma, FD

“The appointment of a new chairman in one of the countries has formally always required the approval of KPMG International. The arrival of Cranston is an equal indication that KPMG International is taking the crisis in the Netherlands extremely seriously. Someone who keeps a watching brief is not sufficient for the international organisation, it has chosen a director who will actively help to restore order to the situation. Partly due to large multinational clients, the Netherlands is one of the most important countries in the international KPMG network.”

Piersma and Couwenbergh, FD

“PwC has invested hundreds of millions of euros in the development of audit software and control methodologies across the worldwide network.”

PwC transparency report 2012-2013

“For trust in the accountant, certainly in this internationalised society, it is important to the VVD that there is uniform regulation across Europe. European regulations on the role of the accountant are being prepared and the VVD wants to be involved in that process as much as possible.

(...)

The VVD wants to ensure that we succeed with this regulation. The Netherlands must not be the bravest boy in Europe and impose stricter demands on our own accountants than accountants in the surrounding countries. This is extremely bad for our competitive position.

We must also prevent the situation whereby accountants are confronted with a forest of regulations: Dutch and English rules, which exist alongside each other once more. That's why the VVD voted against a proposal for (extra) Dutch legislation.”

Cora van Nieuwenhuizen, VVD

“We operate internationally in the field of accountancy and we must not be separated. Even more importantly, as a country it would be best for us to be able to and be permitted to take the lead where important and necessary reforms of the profession are concerned. From the motto ‘noblesse oblige’.”

Marcel Pheijffer, professor

In this report we propose measures which in the opinion of the working group are achievable and workable within the international environment in which many companies and accounts operate. The measures currently ensure a positive impulse in the quality of and trust in the work of accountants in the Dutch environment and thereby possibly even give the Netherlands a head start over the rest of the world in this area. As part of an international environment the Netherlands does not have to patiently follow international developments, but can also take the lead.

Finally we refer to proposal 5.10 for the implementation of a scientific research institute. We also see a role for this institute in the development of the profession at an international level, the identification of areas in which international inconsistencies exist in relation to accountancy and the analysis of the effects of this. Studying the effects of regulation or uses which arise in certain countries or sectors can also help in the identification of 'best' or 'bad' practices.

3.3 Effect of existing legislation and regulation and practices

The working group is however aware that we have to deal with existing legislation and regulation. This may impose restrictions in respect of measures which at the moment may or may not be implementable in the short term. The working group has not allowed itself to be led by this in its vision for the profession and in the development of its package of measures to reinforce independence and quality. If the implementation of one or more measures requires the amendment of legislation and regulation, it is the working group's opinion that this is an issue which should be resolved in the implementation phase.

The working group has however included existing legislation and regulation and other customs and practices in its analyses. In seeking clarity over the structure and environment in which accountants operate, the working group has naturally looked at existing practices which are applicable to other organisations. The working group then considered whether these practices could also be a worthwhile addition to the governance structure within an accountancy organisation from the point of view of guaranteeing quality and independence and the provision of clarity on this to stakeholders. For this see chapter 5 for example, in which we propose the introduction of a supervisory board and for its composition we refer to the Corporate Governance Code. The working group also looked at other sectors in which quality plays an important role and assessed if measures taken within this sector to improve quality might be applicable to the accountancy sector. In that context the working group came to the conclusion that the sector would benefit from an equivalent of the Research Council which plays an important role in the transparency of and learning from incidents relating to safety, such as in air travel and industry. We propose the introduction of a similar mechanism within the profession via a scientific research institute, see chapter 9.

Finally, we attach great importance to announcing that we propose a large number of measures in various sub regions, but that the working group in principle is not an advocate of further detailed regulation over the implementation of the audit itself. The working group has established that there is an increasing legalisation of society and is of the opinion that the profession must be alert to the risk of a fear-driven box-ticking culture in which accountants focus too much on compliance with formal requirements and *form* is elevated above *substance*. This is undesirable in the opinion of the working group since it has a negative influence on innovation, critical thought and the attractiveness of the profession to well-educated, financially-aware talents, whilst these are currently factors which are crucial to the sustainable development of the profession. Form and substance must be correctly balanced within the profession. The most important measures therefore supervise issues which affect culture and conduct, including via structure and remuneration, better fulfilment of the expectations to provide clarity to stakeholders and the learning capacity of the sector.

The working group is of the opinion that the measures provide the foundations for a sustainable, challenging and enjoyable profession and are therefore good for the sector and its stakeholders.

4. A CULTURE IN WHICH QUALITY IMPROVEMENT IS THE NORM

WHAT STAKEHOLDERS SAY

“A crucial element is intrinsic change within the sector. Visibility of this change is essential and in addition to making improved product quality and service provision visible, demands a cultural change, in which governance, people, values, culture, performance and integrity are inextricably linked to each other.”

Olof Bik, Nyenrode

“It's to do with the fact that they are all the same type of men. These are white men between the ages of 35 and 70, fairly rational, confident pace, an attitude of I know how things are and how the world works.” (...)

What I think would help is a completely different type of person in place of that accountant. Women or men with feminine qualities. In any case a different type of person, somewhat less rational, more empathic, also more in tune with content and involvement”.

Jeroen Smit, research journalist

“Are we in a position to offer young, upcoming accountants a promising future?”

Huib Wieleman, accountant and chairman of the NBA

“Accountancy competes for the best people with finance and other fields.”

Jan Bouwens, professor

“Merely seizing upon new regulations is not the appropriate course of action. First from rules to conduct, that's what it's about”

Huib Wieleman, accountant and chairman of the NBA

“Accountants [are] not used to challenging each other jointly. With a single exception being Marcel Pheijffer and his fortnightly contribution to this publication⁴. It would be better for the credibility of the accountancy profession if other accountants held their colleagues to account. A large number of accountants think that the NBA should take on this task of challenging things and some even argue for a public prosecutor in the accountancy profession. This seems to me to be putting the cart before the horse. With respectable practicing of the profession of accountancy it should be possible for everyone to be challenged personally by every other colleague. And the colleague being challenged may not then withdraw from the dialogue by commenting that it does not concern the other. Should it be evident that this challenge has had no effect, then a professional organisation must intervene.”

Jan Wietsma, accountant

“Research shows that strong cultures fulfil four characteristics: they are consciously structured, there is a framework for desired conduct which employees help to choose, it is linked to specific language and symbols and managers have a key role. Few managers are aware of the fact that just by opening their mouth (or not), they still contribute to the culture of their organisation.”

Jan Kuipers, strategic advisor

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4 NB: this refers to the Financieele Dagblad

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“Culture is not just about a code of conduct and professional rules, which very carefully state what people say they value. The conduct of accountants is, consciously or unconsciously but very naturally, driven mainly by the signals which people think they receive about what is truly valued in the organisation or in the audit team. We can tell that from the coherent pattern of organisational conditions which we refer to as organisational culture.”

Olof Bik, Nyenrode

“PKI (Public Key Infrastructure) and quality belong in the VGBA (Regulation Code of Conduct and Professional Practice for Accountants)”

Marcel Pheijffer, professor

“The sector currently has the tendency to rely too much on sanctions systems: mistakes are penalised by a reduction in income. Management must also be by providing positive incentives. A culture not of deduction but of motivation.”

Marcel Pheijffer, professor

“Accountancy is characterised by a high degree of homogeneity. There is intense pre-training, permanent education, a code of conduct and discipline. These are ingredients with which a profession distinguishes itself from other groups. An oath can work in this case, at least voluntarily. It is the finishing touch to the aforementioned matters and would have to be seen as a sign of recognition and approval. It should be an honour to be able to take the oath. This also makes an important external statement.”

Tom Loonen, VU Amsterdam

“Every industry requires a mix of market forces, government intervention and professional motivation. The key question facing the future of the accountancy profession is how and to what extent that mix needs to be updated.”

Wim Nusselder

A number of stakeholders refer to the change in the culture within firms in the last 30 years, partly due to the influence of international networks (Anglo-Saxon culture). They made references to the influence of growing consultancy practices (see also chapter 5) and how the role of professional expertise has declined over the same period. One of the stakeholders for example referred to the fact that in the past, firms were led by people who were leaders in the profession in terms of professional expertise, perhaps as a professor, but that firms today are led by managers. The lack of diversity within firms was also referred to; rational men with a strong financial focus dominate the profession. This may have led to a situation in which accountants have long adhered to the idea that criticism of the profession is mainly caused by the fact that society does not understand what we do, instead of the other way around. The working group also concluded that the buoyant economy in which many current accountants have developed professionally, combined with the lack of effective corrective mechanisms such as external supervision, has led to a population of partners and employees who do not all fulfil current requirements in terms of mindset and professional qualities. The self-correcting and self-teaching capacity of the profession has been low. The working group did also notice that we did not get the impression that the quality of the audit in recent decades has declined under the influence of the aforementioned trends. What is clear is that the quality does not meet today's requirements and that improvement is necessary.

The culture of an organisation influences what people think is important or what people believe will be considered to be important. This is to do with the 'tone at the top' and communication by the management of the organisation but it lies more in the actual activity within the organisation. Which employees are making a career, what performances are valued and rewarded, what conduct is punished? An organisation in which the culture focuses on quality will also attract and retain people who feel good about their environment. In an organisation in which that is not the case, people will disappear.

The quality of the people within an accountancy organisation is one of, if not the most, important defining factors for the quality of the organisation and the quality of the audits carried out. The starting point for a good quality organisation, which is driven by the right culture and mindset is to attract the right people. Quality and a professional skepticism must be present in the DNA of those people. But an accountant must also possess many more qualities. He must be financially and commercially aware and be able to understand complex businesses and business processes. He must understand the strategy of the subjects of his audits and how the changing world can have an impact on future results. He must be well-versed in complex regulations and be able to apply them. He must be familiar with IT. He must be able to communicate well with specialists who are supporting him with his audit, with the company and its board of directors, with the supervisory body and with stakeholders. He must be able to withstand pressure, to continue to question where necessary. He must also invest in the future and work actively on innovations to ensure that in ten years time he is still able to carry out a good quality audit. He must have a feeling for what is going on in society, how this is changing and how to adapt to it.

This range of qualities is rare. If we look at technical qualities in the fields of finance, commerce, IT and regulation, accountancy is competing in the employment market for talent with a scientific level of thinking with the financial sector and the financial column in commerce. Naturally suitably competitive employment conditions and career opportunities are therefore appropriate. The working group is under the impression that this competition has concentrated a bit too much on those employment conditions in recent years. This also has an influence on students who feel attracted to their profession and their motivation and mindset.

Naturally, good remuneration and good career prospects form one of the boundary conditions which must be fulfilled to ensure that the profession remains attractive to people who possess the qualities that the profession needs. But during the recruitment of people, the first selection takes place which is definitive for the DNA of an accountancy organisation. In the opinion of the working group the focus on recruitment of students and the profiling of the sector should focus more closely on precisely those aspects in which accountancy distinguishes itself from other sectors, such as its independent, critical role in the interests of external stakeholders. The working group recognises the role of accountancy organisations as a training institute for financial functions in commerce. It also understands that not everyone who chooses to work for an accountancy organisation does so as a result of ambition or a conviction to spend the rest of his working life as a public accountant. However this does not change the fact that the profession must focus on those people who take personally the standards and values which apply to the public accountant.

If people are accepted who choose the profession for the right motives, it is subsequently important that they operate within an organisation in which precisely those qualities are valued and allowed to develop (see also chapter 6). If this is not the case those qualities will swiftly be diluted, because people either adapt or leave. It takes a long time for a culture to change. It requires constant attention, training, repetition of messages and also selection, so that ultimately people who fit in with the desired culture remain and others leave or adapt.

It is also important in this context that the organisation not only focuses on the punishment of quality problems. Naturally, penalties must be imposed on unsuitable conduct, including the neglect of quality standards, but the creation of a culture of fear must be avoided. This will not lead to better organisations. The focus must be placed on positive stimulation, appreciation and reward of desirable behaviour. It is important that mistakes are learned from and that the organisation constantly improves so that such mistakes are prevented in the future (see also chapters 8 and 9). It is also important that the accountancy profession remains an attractive profession to young accountants. Issues such as administrative pressure, excessive focus on sanctions, a negative image and an uneven relationship between risk and reward (liability, reputation) may lead to the profession losing its attraction. People who are desperately needed within the profession will choose other opportunities.

Finally, it is important that accountancy firms represent a higher standard than simply complying with the law. The attitude that something is permitted as long as it is not forbidden, doesn't apply to this profession. In addition to complying with legislation and regulation, accountancy organisations must represent a higher ethical standard. If you judge others, you must elevate yourself beyond all doubt. When you are associated with an accountancy organisation, that means you must also impose upon yourself a higher standard than the purely legal limit, certainly where financial matters are concerned. Accountancy organisations must be clear about this and agree upon rules with their employees and partners.

Later on, we propose a number of measures which ensure that the sector emphasises what we represent both to potential employees and within existing organisations and that we can assist in the achievement of a change in culture. The working group also believes in the impact of structure upon culture, as expressed by Jan Bouwens: "The culture of today determines the conduct of today. But the structure of the organisation determines the culture over time."

The measures we summarise here are not very tangible and less definitive. That is inherent in measures which focus on culture and conduct. They focus mainly on clarifying what the sector represents, both within the sector and outside of it. Naturally, further interpretation of concepts such as quality and a professionally critical attitude is necessary so that this gains a practical dimension. This interpretation can and/or will change over time, but that is of less importance than committing to these core values.

In the following chapters we shall examine the areas and measures with which this can be more definitive and more tangible. For example in the next two chapters we look at aspects which we think have a strong impact on the culture in accountancy organisations as they are experienced on a daily basis. The measures which we are proposing influence, among other things, the 'tone at the top' and make clear to the entire organisation core values upon which the direction of the organisation is based.

Measures to be introduced

- 1.1 The profession is introducing a professional oath for accountants. The oath will be taken at the time of registration in the accountants' register.
- 1.2 Quality and a professional skepticism must be prominently incorporated and clearly substantiated in the VGBA (Code of Ethics for Professional accountants, regulation with respect to Rules of Professional Conduct).
- 1.3 When projecting the profile of an accountant to students and the job market, the profession emphasises exactly those values, norms and qualities of an accountant that need to be concentrated on to create the desired culture within accountancy organisations: focus on quality, professional skepticism, accuracy, soundness, head up high, social responsibility.
- 1.4 PIE-firms periodically assess the mindset and drivers of the partner group, other managers and employees. The supervisory board will be informed of the results of these assessment and the actions intended to be taken on this basis. The supervisory board must approve the management decision on the actions to be taken. The management and the supervisory board will consider the results of the assessment of individual persons in their decision-making (approval) on partner appointments.

5. GOVERNANCE WHICH PROVIDES THE CORRECT SAFEGUARDS

5.1 Governance and management model

WHAT STAKEHOLDERS SAY

“The culture of today determines the conduct of today. But the structure of the organisation determines the culture over time.”

Jan Bouwens, professor

“The current management format of accountancy organisations must be adapted. This is necessary to fulfil the requirements of the audit and to regain the trust of the users of that audit.

(...)

The management of an accountancy organisation must be largely released from other tasks in order to concentrate on control and internal management. At the moment board members of accountancy organisations also have clients for whom they work. The supervisory boards must begin to consist of more independent members, who come from outside the organisation. The nomination and dismissal of directors must be transferred to the supervisory boards.”

Gerben Everts, AFM

“I don't want to leave the partner model behind per se. I am supposed to have said this, but this is not at all what I meant. I merely suggested that in my opinion that model can continue, but that it must be strengthened, underpinned by generally accepted principles of good corporate governance. Governance measures are necessary to create better internal monitoring, but this can also be achieved very well within something similar to the partner model.

(...) so I got to thinking about the strengthening of the model by allowing people from outside the organisation to become involved. A fresh, critical eye on the individual organisation and the culture which has grown up within it. Ensure that the management of an accountancy organisation has sufficient time for board tasks, because a management team like that has a lot on its plate. Look at the added value of a governance model with an independent supervisory board.”

Gerben Everts, AFM

“The PvdA has come to the conclusion that the partner structure as it now functions is no longer tenable. Its current operation does not stimulate independent, in-depth audits. The opposite is the case. I can envisage a number of difficult areas.”

Henk Nijboer, PvdA

“I've already been down the road of supervisory boards. I think that it really must be regulated, perhaps by law. With other models, all in public service, it appears to me to go far and is infeasible. There are several conceivable models. In fact I think that we must discuss this in the House, but also that the sector itself must deliberate on this for a few months.”

Henk Nijboer, PvdA

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“And the idea of a true supervisory board on which outsiders are included is logical, to the extent that this supervisory board appoints board members. The past tells us that board members must leave the field if the (financial) performance of the accountancy organisation is lagging or the policy implemented does not impress the partners. A true supervisory board can prevent this and has the power which the Public Interest Commission currently lacks.”

Marcel Pheijffer, professor

“Quality can also be driven within the current partner model.”

Het Financieele Dagblad (editor)

“The great strength of the partner model is entrepreneurship. Because the partners invest funds in the company and share in its profits they run faster and have more of a heart for the business. The disadvantage is that partnerships sometimes take a long time to implement changes. The basic, democratic model, in which the partners appoint and dismiss the board and vote on important decisions, can limit the power of the management. This does not take away the fact that the large accountancy firms have changed quickly in recent years. The firm which was basically a gathering of one-man bands no longer exists, says Leen Paape, professor of accountancy at Nyenrode Business University. In their work, partners must observe all sorts of protocols and can no longer distance

themselves from the departments of professional expertise and compliance. Paape, who himself worked at PwC until 2006, says: ‘An indication of the changes is that in the past a job in the professional expertise department was not seen as a career step. Now there are very good people involved.’”

Jeroen Piersma, FD /Leen Paape, professor

“The VVD does not believe so much in the whole discussion about structure, because within that structure, within every structure, culture and conduct can be wrong. You can drive quality within every structure, you just have to get on and do it. A condition for this is that internal supervision and external supervision are in order.”

Aukje de Vries, VVD (People's Party for Freedom and Democracy)

“It doesn't go wrong merely due to the earnings model alone. If you have a keen earnings model which is backed up with good controls, there is no problem. Problems only arise when people can earn too much money by taking their eye off the ball which no-one notices. If that signalling function is inadequately organised and you use a keen earnings model, the problems arise of their own accord. But that is not down to the earnings model, that's down to the imbalance in the organisational structure!”

Jan Bouwens, professor

The specific role played by accountancy organisations within the (financial) system demands a firm governance structure for those firms. Adequate measures must be built into that system to ensure that firms take social considerations into consideration and that potential incentives which may negatively influence audit quality are sufficiently mitigated. This structure must be clear to stakeholders so that they recognise governance and understand how this contributes to the long term objective of the accountancy organisation.

We conclude that this is possible within a partner structure without squandering the benefits of that. The partner structure can certainly contribute to consistent and quality-focused conduct. It is an organisational form in which professionals cooperate on the basis of a common interest, convergence and with entrepreneurship. Entrepreneurship is occasionally cited as an aspect which is at odds with the role of an accountant, but the overwhelming majority of stakeholders are of the opinion that accountants must operate within a commercial environment and the working group shares this position. Operating in a commercial environment and with an interest in profitability is necessary for socially desirable incentives

such as innovation and efficiency. The removal of these incentives would be undesirable in the opinion of the working group. Competing on quality can also be provide an important stimulus for quality; see also chapters 8 and 9.

Other organisational forms are conceivable, but the place of accountancy organisations within the financial system makes external shareholding impossible as a result of which a number of structures fall by the wayside and it is clear that shareholding rests with the partners/accountants. Furthermore, history shows that each organisational form has weaknesses as long as the governance and control are not well regulated. The working group is therefore of the opinion that there is no reason to abolish the partnership structure as such as long as sufficient safeguards and incentives are built into that structure which ensure the audits carried out are of high quality. And as long as they bring the interests of the partners and employees into line with the long term objectives and function of the sector. A number of measures are aimed at the mitigation of inherent weaknesses in a partner structure and in the reinforcement or introduction of aspects which promote the desired conduct. These could be the explicit involvement of the interests of stakeholders in decision-making, the organisation of contradiction within the organisation, diversity and decision-making which is in line with the long term objective of the organisation: the guarantee of high quality audits. In the opinion of the working group these measures reinforce the partner structure. A governance structure which safeguards these aspects is in the interest of all partners since the sustainability and continuity of the organisation is protected.

Various stakeholders proposed the introduction of a supervisory board which is made up of external members. The working group agrees with these stakeholders that this measure will reinforce governance and also provide clarity to outsiders about the internal supervision. The supervisory board focuses on the interest of the corporate body and as an element of that will ensure that the interests of internal stakeholders are sufficiently acknowledged. A supervisory board also provides extra checks and balances within the governance of the organisation. A supervisory board can also ensure that the management of the organisation is assessed primarily on matters which are of interest to the added value of the organisation. Even if that is at the expense of the short term interests of the partners. The Public Interest Committee (CPB) should in the opinion of the working group first be able to fulfil a comparable role if rules on composition and authorities are established for it, but the supervisory board is recognisable to the outside world. What is obvious is that the function of the current CPB lies with the supervisory board. A supervisory board which is fully comparable to the supervisory board as we know it in the business sector however also has risks attached to it.

The CPB has a clear focus on public interest and the quality of the audit. If the function of this body is expanded greatly this could also mean that on balance, the body spends less time on the quality-focused aspects upon which the CPB focuses. It is therefore important that the tasks of the current CPB are correctly established with the supervisory board and that the tasks and authorities of the supervisory board are clearly described in these areas. Quality and independence must be important concerns for the supervisory board in performing its supervisory tasks.

The working group then considered whether the supervisory board should be introduced at the level of the (Dutch) holding company of the group to which the accountancy organisation belongs. The establishment of a supervisory board at the level of the accountants will have the advantage that the supervisory board can focus completely on the quality of the audit and the independence of accountants. The working group is however of the opinion that this cannot be seen as separate to the rest of the organisation. Damage to reputation or poor quality within other segments of the organisation are associated with the entire organisation (or 'the brand') and have a significant impact on trust in this organisation, including the audit. For effective integration, certain standards, values and requirements must be borne and fulfilled by the entire organisation. In addition to this, infringements of independence rules by (tax) advisors for example can also affect the accountancy practice of the network organisation. Examples of this might be the compulsory separation of the audit and advice for PIE's and, to a lesser extent, other companies. For these reasons the working group has concluded that the supervisory board must be introduced at the level of the Dutch top holding company. The way in which the supervisory board looks at issues such as

quality and independence and handles these in its supervisory role must naturally be attuned to the activity within the organisation involved. In view of the importance of the supervisory board in guaranteeing the quality and independence of the audit, the working group is of the opinion that the supervisory board, although it is formally a body within the Dutch top holding company and not of the accountancy organisation, must also report on the implementation of its role in the transparency report of the accountancy organisation.

The working group has taken note of the objections made against measures which affect parties other than just the auditors. The working group is however of the opinion that a supervisory board in no way needs to be negative for an organisation. A strong internal supervisory body can make an organisation stronger and more sustainable. Quality of advice naturally has dimensions other than the quality of an audit, but the attempts to achieve quality advice and a supervisory board which questions management critically on how that is guaranteed internally makes the organisation stronger rather than weaker. Also in respect of independence, it applies that things are done differently within a consultancy practice than within an audit practice and the supervisory board must adapt its supervisory role accordingly. This does not differ however for situations in companies in other sectors, where a supervisory board ensures that management is regularly forced to take a look in the mirror and is questioned critically over its strategy and (intended) decisions.

The working group does not propose to introduce such a supervisory board widely within the sector, but to make it compulsory for accountancy organisations which have a PIE-licence.

The inclusion of external members on the board of directors is also suggested. In the opinion of the working group this would not be undesirable, for example in the light of stakeholders' wishes to arrive at more full time directors within the sector, more diversity and more distance between directors and the other partners. The fact that external parties may be more suited to specific management functions than good accountants has also not been ruled out. The working group is however of the opinion that this should not be encompassed in an obligation. A director is part of the company and therefore by definition not external. If a director is considered to be external the question is for how long has that been the case and when he should be replaced. It is also important in the working group's opinion that directors have sufficient ties to the accountancy practice to be able to understand what goes on there and to have sufficient understanding of the developments within the profession. Suitability as directors must be the primary consideration in the selection of directors. For this purpose the supervisory board must create a profile outlining the qualities with which directors must comply. A suitability assessment will already have been carried out by the AFM before directors can be nominated.

The working group has noted the position of a number of shareholders that directors must focus on their board duties and should not combine this with responsibility for annual accounts audits. The working group is in agreement with this insofar as it must be guaranteed that directors spend sufficient time on their board tasks and that they also spend sufficient time on the audits for which they are responsible. The board duties must be a director's primary duties and a role as a partner with ultimate responsibility for audit assignments is only possible if board duties permit this. In view of the interest of sufficient connection to the practice a limited client portfolio may be desirable, also for example to guarantee the quality of the audit at the time that the board term ends and the partner concerned becomes responsible once more for a number of annual accounts audits. The required amount of time spent by each board member depends amongst other things on the number of board members, the size of the organisation and the extent to which it is organised internationally. For these reasons a fixed standard cannot be established. In the opinion of the working group the supervisory board of the Dutch top holding company is the body designated to formulate this standard and to supervise compliance with it. As stated the assumption must be that the director primarily focuses on his board duties. A limited portfolio as an auditor is possible, however only with the consent of the supervisory board.

WHAT STAKEHOLDERS SAY

“Advisors bring the most into the firms, including within the partner pool amongst which the profit is distributed. How do you prevent internal tension if there is a real need to invest more in quality, in order to put more hours in? How do you ensure that in a firm in which shareholders call the shots, the right decisions are taken to invest in quality? How do you ensure that? The two things together guarantee internal tension.”

Henk Nijboer, PvdA

“The AFM is pleased to discover that in the compromise, measures have been deleted which the AFM had assessed in its analysis as far-reaching and arbitrary. This involves for example the compulsory the splitting-up of large accountancy organisations.”

AFM

Working Group This ruling concerns the agreement between the European Parliament and the Member States on the legislative proposals of the European Commission which were presented by Commissioner Barnier]

“But as soon as commercial interest begins to play a role, you need to be careful. That's why I think the separation of audit and consultancy is very good. For this reason I am concerned about the speed with which the large accountancy firms are now rebuilding their consultancy practices. The tension between commercial and audit will increase as a result.”

Louis Deterink, curator

“I think that an evolutionary process will achieve more than a revolutionary one. You can consider a whole lot of things: strict separation of consultancy and audit offices as defined as the compulsory splitting of accountancy firms away from the consultancy practice and a different commissioning method. I don't think this will help anyone in the long term. You must leave it to the company, the shareholder and the supervisory board to build in the safeguards you need within the model that has proved itself and which can function.”

Gerben Everts, AFM

“Consultancy is so attractive that firms will give up audit work. And then where would the accountants come from? In certain industries, such as the financial sector, a threat of a shortage of specialist accountants exists. An advisor works purely for a company. The work of an accountant is in the interest of society as a whole.”

Paul Koster, VEB (Dutch Shareholders Association)

“In our market-driven society there is no place for public accountants in government service. Social interaction will just have to learn to live with this. The accountancy profession must make it clear how independence and integrity are to be protected. Perhaps the current multifunctional forms of partnership are not suitable for public accountants and we should return to the old partnerships, so that public accountants can concentrate on their profession and not be led by (the interests of) non-professional colleagues.”

Gabriël van de Luitgaarden, accountant in business

Various stakeholders express concerns about the effect of combining audit and advice (tax advice and other consultancy) within one organisation. With effect from 2013 a split between audit and advice has been introduced for PIE's at assignment level in order to ensure independence. Restrictions also exist for other audits on the basis of the Regulation on the Independence of accountants in assurance-assignments (ViO) in respect of the type of advice which can be issued by the accountancy organisation (including the network to which this organisation belongs) which is also the auditor. The professional rules prohibit the remuneration of the auditor on the basis

of commercial incentives for statutory audit assignments. Furthermore, article 2:382a requires separate notification of fees for the audit of annual accounts and other services. These measures prevent and/or mitigate far-reaching (incentives for) cross-selling at assignment level. Moreover, stakeholders who we spoke are not in total agreement over the question of whether the separation of audit and advice enhances the quality of the audit. Various stakeholders are of the opinion that a number of types of advice can be combined with the audit and enable the accountant to become better acquainted with the organisation and to carry out his audit better. But everyone was in agreement that this must be handled carefully.

Almost all of the stakeholders also stated that the costs of a strict separation of audit and advice at assignment level for most non-PIE's should not be weighed up against the benefits in respect of the independence of the accountant. Limited advice provided by the accountant to an audited company in the non-PIE sector was considered desirable by many stakeholders. The working group therefore proposes first of all to investigate the desirability and possibility of expanding the definition of PIE⁵ and only later, when the effects of laws and regulations on PIE's can be evaluated, to investigate whether further expansion of the measures over non-PIE's is desirable.

For the auditing of large, complex organisations it is crucial for accountancy organisations that they have at their disposal suitable experts on various aspects of the audit. These could be fiscal experts for the audit of the tax position, pension experts, treasury experts, valuation experts and IT experts. At the present time it is no longer possible to carry out a proper audit without the use of such professionals. These experts build up part of their specialist knowledge via audit assignments and documentation requirements. Because they are active within the organisation, they are well-informed about the degree of internal independence, quality and documentation requirements. The conclusion of the working group is that the role of the specialists working in many disciplines within the organisation is of such importance to the correct implementation of many accountancy audits that it is crucial to their quality that this situation must be maintained even in the future. For this it is essential on the one hand that the link with an accountancy organisation for these disciplines remains sufficiently attractive and on the other hand that adequate measures are taken for the mitigation of any disadvantages or risks.

For smaller accountancy firms the possibility to offer advice in addition to an audit is important for the viability of the organisation. Due to the seasonal pattern of audit activities, consultancy activities are carried out by the employees of those organisations outside the audit season. The opposite is true in practice, as companies also have a need for advice from accountants who have acquired their specific expertise in their role as an auditing accountant. These might be second opinions about complex reporting issues or training and advice on internal management.

Finally, the profession derives a degree of its attractiveness to talented students from the broad development opportunities both within and outside of the auditing practice within the accountancy firm. Once concern which was expressed is that good people and resources from within the accountancy practice may possibly move over to the consultancy practice. The fact that during their time with the audit practice a number of employees change their job for one in the consultancy practice is correct. But the question is whether these employees would absolutely have chose an accountancy firm as their first employer, had this option not been there at all. Or whether they would have left the organisation if it were not possible to fulfil a new role within that organisation.

When a consultancy practice is more profitable than an audit practice in an organisation, which as far as we know is certainly not the case for all accountancy organisations, tensions can arise. But that can also be used to the benefit of audit quality, namely by utilising some of those profits to invest in audit quality which would otherwise be impossible.

What this is about, in the opinion of the working group, is that advisors who are linked to an accountancy organisation realise that they are part of an organisation with a focus on accountancy and the associated demands in the fields of quality and ethics, with all of the advantages and disadvantages related to that. Risks must be mitigated within the governance of the accountancy organisation. The supervisory board with external members already cited above must play a role in this.

⁵ see also chapter 7

Measures to be introduced

- 2.1 A supervisory board will be established in the Dutch top holding of each group that an accountancy organisation with an PIE-licence is part of.
- 2.2 The provisions of principles III.1, III.2 and III.3 of the Dutch Code of Corporate Governance (CCG) apply to the composition (including independence) and working method of the supervisory board. These provisions will be included in a NBA regulation to ensure that these provisions fall within the scope of the supervision of the AFM. The composition of the supervisory board is such that the members can act independently and critically. Apart from the expertise listed by the CCG, the supervisory board contains expertise in respect of quality policy and the public interest. In line with the CCG, all supervisory directors, with the exception of one person at most, are independent and thus external members. The chairman of the supervisory board is always an external member and independent. The selection of the members of the supervisory board takes place on the basis of a profile (see CCG provision of principle III.3) containing the fields of expertise defined. The appointment takes place on the basis of a binding nomination by the supervisory board, which can only be deviated from with a qualified majority. The same applies to suspension and dismissal. The supervisory board will be a diverse composition. The composition aims at a minimum of 30% of women (and at least 30% of men). Before the nomination of a (n) (aimed) supervisory director can take place, a suitability assessment should be carried out by the AFM.
- 2.3 The task and the mandate of the supervisory board will be clearly described. The supervisory board will in any case focus on organisation-wide aspects that affect audit quality, independence, integrity and on the interests of external stakeholders during the audit. The supervisory board will make a binding nomination for members of the board of the Dutch top holding, which can only be deviated from with a qualified majority. The supervisory board is also responsible for the approval of the appointment or dismissal of partners within the audit practice, approval of the quality policy and the guarantee thereof. Also, the supervisory board approves the remuneration policy for directors, partners and employees, and it determines the remuneration of the directors of the Dutch top holding. The supervisory board approves the appointment and assessment of the compliance officer. Without jeopardizing the management's responsibility for the adequate compliance of the organisation, the compliance officer must have a direct reporting line to the supervisory board. Annually a meeting will be held between the supervisory board and the AFM without the presence of the directors. The content of this meeting is aimed at the accountancy organisation.
- 2.4 In line with CCG provision of principle III.1, the supervisory board governs the interest of the entire organisation, those parties involved in the organisation, and it involves the relevant social aspects of operating a business, including audit quality and independence. At the same time it ensures that the effects of conflicting interests (both at a business and a personal level) within the organisation are sufficiently restricted.
- 2.5 If required, the supervisory board has key committees in line with the CCG. The members of the remuneration committee are all independent. Ensuring the public interest is an essential part of the supervisory board's duty as a whole. The function of the existing Public Interest committee will be integrated into the supervisory board.
- 2.6 The supervisory board incorporates a comprehensive report into the annual report of the Dutch top holding company and into the transparency report of the accountancy organisation. It presents how the supervisory board has fulfilled its role regarding each of the tasks and responsibilities assigned to it, which procedures have been followed, and it presents the key substantive findings, discussions and decisions of the supervisory board.
- 2.7 The board of directors of the organisation must be composed in a sufficiently diverse way, with due regard for the interests of external stakeholders. The supervisory board will see to this when appointing the directors of the Dutch top holding. The appointment of people from outside may help in certain cases, but is not necessary. Directors shall be selected on the basis of one of the profiles drafted by the supervisory board containing the defined fields of expertise, and after a suitability assessment has been conducted by the AFM.
- 2.8 The management must be able to maintain sufficient distance from the partnership and should spend enough time on managing the organisation. The member of the board that is principally responsible for the quality policy must primarily focus on this task. The supervisory board formulates the starting-points of the time to be spent by the directors on board's duties and other responsibilities, and supervises the compliance thereof. It is possible for a director to have a limited audit portfolio, however only with the consent of the supervisory board.

6 Organisations with a different legal structure establish a similar supervisory function which guarantees independent supervision. The creation of a one-tier board with non-executive members is also possible. The provisions included for the supervisory board are similarly applicable in those variants.

6. APPRECIATION OF QUALITY AND A REMUNERATION MODEL WHICH PROVIDES THE CORRECT INCENTIVES

WHAT STAKEHOLDERS SAY

“Striving to maximise profits is the problem. By striving for profit, the attraction and retention of clients has become more important the social task of the accountant, which is to provide security surrounding financial figures.”

Jules Muis, former public accountant – quoted in FD

“The suggestion by Mr Muis, as I understand it, is actually: remove the vulnerability by cutting the tie, or at least the financial tie. That requires pretty radical surgery in sector which is itself very individual, in which contracts are entered into between private individuals and a financial relationship is created. You would have to cut a swathe through this using pretty draconian measures. I would say: be professional about it, realise that the vulnerability exists -- after all, this is not new information -- and ask yourself whether you have introduced sufficient safeguards to guarantee the integrity of the work. That requires external supervision and proper criteria within that external supervision, but that certainly also requires good internal supervision, a culture which is alert to this, an integrity policy and so on.”

Jeroen Dijsselbloem, Finance Minister

“In the discussions about accountants the cause of misconduct by accountants is blamed on perverse incentives and greed. It is very questionable as to whether that is true.

Strong incentives are necessary to ensure that work is done efficiently. To this end accountants must be given resources and they can use those resources for good or bad. To prevent the latter we must Om het laatste te voorkomen moeten we de persoon in kwestie ervan weerhouden ‘kwaad’ goed te praten.”

Jan Bouwens, professor

“You need a certain level of remuneration to bind talented people to the profession. In the interview Korter himself refers to the risk that in certain sectors there will be a shortage of specialist accounts.”

Arnout van Kempen, compliance advisor

“I cannot imagine a stronger incentive to avoid any risk relating to quality. If the good reputation of your firm is harmed, the partners are directly affected financially.”

Auke de Bos, accountant and professor

“In addition, quality must have a much more direct impact on the incomes of accountants and accountancy firms. Certainly, the incentive to deliver high quality ought to come primarily from intrinsic motivation and professional pride. But a stronger link to profit and remuneration can make a contribution. As long as this promotes the correct moral conduct, a financial incentive can be instrumental in achieving a desired result.”

Michael de Ridder, accountant

“My colleague Van Andel thinks that the government should pay accountants. I don't. We all see that the government often fails in its supervisory role. A good accountant operates completely independently. But as soon as commercial interests begin to play a role, you need to be careful.”

Louis Deterink, curator

“Is there a conflict between "working for the market" and "working for the common interest"? I would say: no, that conflict does not exist (...)

Cowboy capitalism never works, or so history teaches us. Planned economies never work, or so history teaches us. But a free market, with government intervention, to eradicate any imperfections in the market, has been working well for a long time. »

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Not because accidents don't happen, but because you learn from accidents. The accountancy profession ,which already has two government institutions, the AFM and NBA, must develop further along these lines as a market party in a market guided by a gentle hand. The accountancy profession is at the service of the market and the common interest. The key words in this statement are still "marker" and "common interest" The key concept is "at the service of". The accountancy profession is a service provider and must be able to service the market. And in doing so it serves the common interest.

Arnout van Kempen, compliance advisor

"I have heard comments about rotation, but I have also heard comments that as a government we must do something about the remuneration of accountants. I want to provide clarity on this in advance from my point of view. Our colleagues deserve that much. I don't see it this way. It is true, an accountant has a task with a high level of public interest, but the task of the accountant takes place nevertheless in a free market with competition. If you then create a strongly regulated market from this, in which the regulation also extends to the remuneration of people involved in that market, I think this can be referred to as market interference. Then competition no longer exists. And there is no longer a remuneration aspect to it. And in that case I can imagine that the discussion is taken in the wrong direction. That is to say, an accountant is not paid by the taxpayer. Taking the public task to such an extent that they are more or less placed in disguised government service is to me a couple of bridges too far."

Roland van Vliet, Van Vliet factior

"It is more the question of whether a keen earnings model is the cause of the problems within accountancy.

(...)

I don't see why we should implement an evidently poor measure as a response to an unproven statement."

Jan Bouwens, professor

"Structural changes are therefore not enough. You can replace perverse incentives on paper with quality measures. But what is the informal reality within the firm? How do remuneration, assessment, appointments and management really take place?"

Marcel Pheijffer, professor

"The fact that you are paid by those who you are considered to be auditing, naturally entails a certain vulnerability. There are various ways to resolve that. The first -- which is the approach I would argue for -- is to be aware of that vulnerability and to ensure that in internal and external supervision, but also in the way in which business processes are organised, such as the integrity policy, the risks of this are mitigated. I am not in favour of nationalising accountancy organisations or allowing them to be paid via 'pools' or other, even wilder, measures. We must be very aware that this vulnerability exists. What's more this is not new, as it exists already. We must also ask whether the mechanisms which supervise in the first place the accountancy organisations themselves and in the second place in the laws and regulations are sufficient to guarantee that mitigation. In my opinion that is what the discussion should be about."

Jeroen Dijsselbloem, Finance Minister

"A salary ceiling must be introduced for accountants. The maximisation of their salaries must yield a saving, which can be used to improve the quality of the accountancy audit."

Paul Koster, VEB (Dutch Shareholders Association)

"Especially since the financial crisis there has been a general feeling that managers and professionals, such as accountants, earn too much. You can easily score if you say that everything will be put right if salaries are reduced. But there isn't much evidence to suggest that the level of salaries is a problem."

Jan Bouwens, professor

"The accountant may earn as much as the market allows. And he must then deliver the quality which is appropriate to that level of income. That is not to say that the earnings model for the accountant must be excluded from discussions. The earnings model must be stripped of perverse incentives."

Marcel Pheijffer, professor

No 'up or out' model for accountancy firms any longer, but focused selection for each job level. Throughput takes place on the basis of a range of qualities, and commercial insight does not belong in that range."

TUACC

The level of remuneration of accountants was raised for discussion by a single stakeholder, together with the fact that the accountant operates in a free market environment. These stakeholders propose to maximise incomes or for accountants to be employed by the government. These opinions were not widespread however and the shared view that the market must determine how much an accountant is worth. Sufficient safeguards must however be incorporated to ensure that he delivers the required quality. The various measures and safeguards have already been discussed in the preceding chapters of this report, such as the measures already introduced which prohibit or restrict the provision of consultancy services by the accountant and his network organisation and supervision by the supervisory board of the Dutch top holding company of aspects such as independence and remuneration policy. In chapter 7 we also propose that the supervisory board, rather than the board of directors, determines the accountant's fee. In chapter 8 we make suggestions which are aimed at the guidance and publication of indicators in the areas of leverage and coaching. These measures influence the so-called earnings model for accountancy and network organisations. They ensure that the core task of the accountant, the implementation of high quality audits, is a dominant factor within that model. In this chapter we also propose a number of measures which are aimed at the rewarding of desired (focused on audit quality) conduct of individual policy makers, auditing (external) accountants and team members within an accountancy organisation.

The working group agrees with the vast majority of stakeholders that the level of income does not determine the quality of accountants. If there were a link between remuneration and quality then it could be expected that higher remuneration would attract better accountants than those who are not so good. Which ultimately does not mean that an increase in remuneration of an individual also automatically leads to an increase in the quality he delivers. What is however relevant in the opinion of the working group, and also many stakeholders, are the incentives which arise from that remuneration. Competition based on quality must be stimulated in accountancy organisations; please refer to chapters 8 and 9 for this. Within the organisations the remuneration model must be arranged in such a way that it stimulates and enforces quality. What the remuneration is based on is therefore relevant. The appreciation and remuneration of an individual accountant must be greatly influenced by the quality of his work and the organisation's long term objectives, so that the incentive which arises from the remuneration is in line with the organisation's objectives and is not in conflict with it. If that is the case the remuneration policy also supports a culture in which quality is paramount.

Naturally, remuneration is also partly dependent on the firm's profitability and the partners and employees all have an interest in that profitability. In the opinion of the working group it is however possible to arrange the remuneration of the partners in the audit practice in such a way that it is based on incentives which focus on audit quality. The profitability of the entire organisation is therefore less able to be influenced by the individual than the quality he delivers. In a model in which, with the firm's profitability as the starting point, individual remuneration is primarily influenced by the quality delivered, this will have a great effect on his conduct. Hereby it must also be stated that the other measures within the organisation will also enable him to deliver that quality.

It is important that the remuneration system is based on reward as well as punishment. If you only use sanctions as motivation you create a culture of fear. In addition, partners and employees who are responsible for quality within an organisation, must be rewarded on the basis of the results achieved in that area. The working group has taken note of the responses of a number of stakeholders who thought that the severe punishment of negative findings surrounding quality, such as the proposed claw-back scheme (see measure 3.5), may have negative consequences. It could also lead to risk-avoidance behaviour. The working group does not see this as a significant problem. First, we propose that remuneration is a component which is dependent on the role and responsibility of the partner concerned. The nature and risk profile of the companies within the partner's portfolio can be part of this. The public profile of the audited company could for example play a role in this. In addition

the conduct referred to could lead to accountants not being prepared to audit certain risky clients. The working group does not see this as a problem for the profession. A company which is led by management with high ethical standards, in which effective internal management and supervision (supervisory board) is carried out and which enables the accountant to carry out a good quality audit, shall in our opinion be able to find an accountant to carry out an audit of the annual accounts. If companies do not comply with the boundary conditions which accountants impose to enable the undertaking of a high quality audit, that then becomes a problem for the company and its management and it must account for this to its stakeholders. The working group is of the opinion that this is a clear signal from the profession to society, when a number of companies do not comply with the profession's conditions for eligibility for an audit. The profession must not be afraid to send out such signals.

In addition to a focus on quality, the remuneration scheme must, in the working group's opinion, ensure a long term focus on the part of professional practitioners. Not paying out remuneration in full immediately thereby making it disposable, but linking it to a claw-back scheme, the focus is on the long term and quality is further enhanced. We also aim to focus on the long term with an appropriate pension scheme. If the pension is arranged properly there is no need for a partner to strive to achieve maximisation of profits during the last few years of his career to secure his pension as this will have already been taken care of the very beginning of his career. In the working group's opinion this contributes to a long term focus on the part of all partners and reduces the risk of investment and innovation being obstructed. The working group is also of the opinion that via this measure the need is removed for audit partners to provide their pension via individual investments. This must also be combined with a restricted scheme regarding permitted investments and holdings by audit partners.

The working group's analysis and discussions with representatives of various firms has also taught the working group that the model in which acceding partners must invest a significant amount of capital in order to acquire a share in the organisation (the 'goodwill model') is not compatible with the introduction of an extensive package of remuneration and other measures which focus on quality. The high level of external finance which is necessary for the injection of capital to a number of firms and the security required by the bank necessitates a certain level of income and prevents the introduction of a remuneration model in which income depends greatly on quality. The working group therefore proposes to phase out this model. This requires careful handling however with a view to the individual circumstances of firms and accountants, for which a reasonable term and transfer rules must be taken into consideration.

Finally we note that remuneration goes further than merely the salary or distribution of profits in any one year. Criteria for promotion and career opportunities are also important elements in the 'remuneration' of people for quality-focused performance. Professional expertise, professional skepticism and quality of work should be the crucial elements within the organisation's promotion policy, including the criteria for the appointment of partners. Such professional expertise basis must be a condition for the appointment of partners. For this reason the working group is of the opinion that demonstrable experience within a position requiring professional expertise or which focuses on compliance and apparent quality of audit assignments successfully carried out must be requirements for the appointment of partners. Not only does this experience enrich these people professionally, it ensures communication with employees on the capacities which are very significant in developing a career within the organisation. This also influences culture and mindset in the right way.

The working group proposes the following measures as general requirements for all accountancy organisations.

Measures to be introduced

- **3.1** All accountancy organisations must demonstrably have an internal remuneration system, in which the remuneration of quality, including coaching and supervision, come first. The key element of the (variable) remuneration of the individual employees working in the audit practice and the remuneration or allocation formula on the basis of which the profit is distributed for audit partners is determined by role, responsibility and the audit quality delivered, including the quality of the supervision and coaching of team members and results of file reviews. Quality must both have positive and negative consequences for the remuneration or allocation formula in the system. The remuneration policy, including the criteria on the basis of which the profit is divided between the audit partners, the investment policy for individual partners in private, and the individual remunerations of the directors of the accountancy organisation is published in the annual report, transparency report or on the website of the accountancy organisation.
- **3.2** Technical knowledge, professional skepticism and quality of the work should be the crucial elements within the promotion policy for employees of the audit practice in the organisation, including the criteria for the appointment of partners. This should for example be implemented by means of a curriculum that someone should have completed before he is considered for partner appointment. Demonstrable work experience (with a positive assessment) within a function aimed at quality or professional development (i.e. technical or compliance department) during a relevant period and a representative number of file reviews with a positive assessment are part thereof. For the partner appointment within the PIE audit practice of an accountancy organisation and before somebody can function as a partner in a PIE, there must be at least an equivalent of 12 months' experience within a function which focuses on quality or professional development with good scores and at least three file reviews with good scores in the last five years before appointment. With PIE's, the supervisory board tests in any case (but not exclusively) for the above-mentioned aspects when approving partner appointments. For the careful and operational feasible implementation of this measure, the working group deems a transitional regime necessary. It will be possible for a maximum period of three years to appoint a person who does not yet meet the criteria for experience within a function which focuses on quality or professional development, subject to the condition that he will gain the required experience after appointment within five years.

In respect of partner remuneration for all network organisations which hold a PIE-licence, the working group proposes the following:

- **3.3** The provisions of principle II.2 and III.7 of the CCG regarding the remuneration of directors or supervisory board members are taken over in an NBA regulation to ensure that these provisions fall within the scope of the supervision of the AFM. The remuneration of the members of the supervisory board is annually determined and is independent of the results of the organisation. The remuneration is determined at a level that is appropriate to the responsibility of the non-executive directors and time required for good performance of the task. Directors of the Dutch top holding of a PIE accountancy organisation must receive a remuneration that is determined by the supervisory board and is not directly related to the profitability of the organisation in the relevant year. This remuneration consists of a fixed amount that is determined by the supervisory board at the start of a year in accordance with the remuneration policy plus a variable amount of maximum 20%. The variable element of the remuneration of the directors of the Dutch top holding must be based on achievement of the long-term objectives set by the supervisory board, which suit the social function of the organisation (including audit-quality) and the specific responsibility herein of the relevant director. The management of the top holding ensures that the remuneration of the policy makers of the PIE-licence holder fits within the set objectives and the policy described under 3.1.
- **3.4** For the other audit partners, the remuneration or allocation formula, on which the profit distribution of the partner is based on, must consist of one component which is based on role and responsibility and one variable component. The last component is mostly based on criteria related to quality, including results from file reviews, the results of employee satisfaction measurements and individual assessments by team members in respect of the guidance given by the partner. Within the remuneration or allocation formula, it is possible to remunerate on the basis of other objectives. However, no weight is given to a more than average performance in the area of commercial objectives if the audit partner has scored poorly on the aspect of audit quality. Deductions from the remuneration of individual audit partners due to insufficient scores on the quality delivered are not destined for payment to the other partners, but will in consultation with the supervisory board be spent on specific measures focussed on quality improvement. The working group is of the opinion that quality is also a collective responsibility. However, quality problems within an office cannot have a positive effect on the remuneration of any individual within the organisation.
- **3.5** PIE accountancy organisations conduct a claw-back scheme with a term of 6 years (the maximum term to start procedures at the Accountant's Court), where the public accountant deposits an amount at once or accrues it in 6 years' time through reservation from profit entitlement. The amount covered by this scheme will accrue in six years' time to one average annual income earned over the most recent period of 6 years. Where, before the expiry of that period, it appears that an imputable act of the accountant has led to the issuance of a false declaration, which resulted in social damage, the amount that is covered by this scheme will not be paid out, but the accountant will lose his entitlement to profit fully or partially. The sum of the amount to be deducted from the reserved profit entitlement or deposited capital is due for final assessment by the supervisory board and dependent on the significance of the shortcoming and the social harm as a result. This measure holds not only for the signing partner, but, where appropriate, the role of the partner who is responsible for the engagement quality control reviews for this assignment and other team members, should also be assessed. Deductions made in accordance with the claw-back scheme are not destined for payment to the other partners, but will, in consultation with the supervisory board, be spent on specific measures focussed on quality improvement.
- **3.6** Accountancy organisations conduct an investment policy for partners in private which defines the restrictions that partners have to observe. The investment policy must be approved by the supervisory board.

- 3.7 The sector starts a process that is aimed at the gradual phasing out of the model in which new partners must invest capital in order to acquire a share in the organisation ('the goodwill model') within a reasonable term and with an appropriate transitional scheme.

Measures to be researched further

- 3.8 The sector investigates the introduction of a pension scheme for the profession which PIE accountancy organisations will obligatory participate in and other partners can voluntarily participate in. The working group has the impression that the introduction of a pension scheme is recommendable, however, the consequences in respect of independence among other things must first be investigated.

THE EARNINGS MODEL

The earnings model for accountancy organisations has been discussed several times in recent months. The Nijboer motion states that improvements can be introduced to this earnings model. What is the earnings model for an accountancy organisation and what does the working group wish to improve in it?

The accountant receives the assignment for the audit from the legal entity. Formally, the general meeting or supervisory board should do this, but in a material sense the accountant is often selected by the board of directors. Part of this is normally the agreement of an audit budget.

The audit is then carried out by a team which consists of one or more partners or directors, senior team members and junior team members. Specialists are also regularly involved. The accountant must use the available resources (not only the time of the team members, but also for example financial resources which are invested in audit methodologies and software) effectively and efficiently in order to arrive at a well-supported opinion at an acceptable cost.

Accountants also give advice to companies. Advice on the subject of external reporting or internal management is directly related to the accountant's specific expertise in financial and commercial areas. Other consultancy services, such as advice in the areas of valuation, tax, legal aspects or strategy are further from the regular duties of the auditing accountant and in general are passed over to accountants or others who specialise in these areas within the organisation.

The ownership of most accountancy organisations is in the hands of the partners. The partners take joint decisions on the strategy of the organisation and management is responsible for the daily control of the organisation. The partners are entitled to a share in the organisation's profits. In general, this involves the total profit over the organisation which is distributed. In this process no distinction is drawn between the profit from (statutory) audits and from other service provision.

This model has advantages and strong points, but there are also risks. The measures in this report are intended to reinforce the strong points and to mitigate risks. To name a number of points:

1. Appointment and payment of the accountant.

In our proposals, from now remuneration will be agreed by the supervisory board of the company being audited, rather than the board of directors. The supervisory board is appointed to serve the interests of the corporation and all of its stakeholders, to supervise the board of directors of the company being audited and is itself not the subject of the audit. The link between management and accountant is severed in this respect.

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2. The combination of audit and advice. The working group is of the opinion that multidisciplinary organisations and the specific expertise which is accrued within the consultancy practice is of great value to the quality of the accountant's audit. Companies also have a vested interest in integrated consultancy on the various dimensions surrounding an issue, such as legal, fiscal, reporting and management aspects. The supervisory board of the Dutch top holding company of the accountancy organisation must ensure that commerce does not prevail over quality and that in the event of any conflicts of interest, social function of the organisation is given priority. At the assignment level it must be guaranteed that quality and independence are placed above the opportunity to provide consultancy services. With PIE's it is already no longer possible to audit and advise the same company. We propose to expand further the definition of a PIE as a result of which this becomes no longer possible for an even larger group of organisations.

3. The leverage model. Is the money earned by deploying as many as possible junior people on an assignment or is there extensive involvement of experienced people who pay attention to good coaching? We propose the reporting of quality indicators by accountancy organisations of which indicators in respect of partners and senior team members and the quality of coaching will also form a part. At the assignment level we also propose that the partner and team hours are reported to the supervisory board of the company being audited. Intensification of EQR procedures must also contribute to more utilisation of experienced people on an audit assignment. The assessments of team members of the quality of the coaching and the results of general employee satisfaction surveys will form a significant element of the assessment of partners. These measures are aimed at achieving appropriate leverage which results in good quality audits.

4. Reward for quality versus commerce. This begins at the level of the firm. Is it possible to compete on quality in this sector? We think that this is possible. By compulsory reporting on quality indicators combined with firm-specific AFM reporting the supervisory board of the company being audited can involve quality more emphatically in the selection of an accountant. Due to its responsibility as supervisory body of the company, that supervisory board also has a primary interest in a high quality audit. And then there are the people in the firms. The supervisory board of the Dutch top holding company which supervises the board of directors receives remuneration which is independently of profit. The same applies to the board of directors and if a partly variable remuneration package exists then this must be based on long term objectives which suit the social function of the accountancy organisation. The promotion and remuneration policy for all other partners and employees must primarily reward quality. Penalties for the neglect of quality for example via a claw-back scheme, is also appropriate.

The sum of the measures is aimed at arriving at an earnings model in which accountancy organisations compete on quality and the drive for efficiency leads to innovation and investment in effective audit methods. An earnings model in which the supervisory board appoints the accountant, people are rewarded for quality, assignments are implemented within a leverage model which focuses on quality and coaching and in which the combination of audit and advice at organisational level provides added value to the quality of the individual audits and advice.

7. THE CORRECT CLIENT, A CLEAR ASSIGNMENT AND DETAILED REPORTING

The accountancy profession is under a magnifying glass. The accountant plays a relevant and important role in society and we must therefore expect society to regard us critically. So we must instil confidence in society that we do our work well and that they can rely on our opinion. Unfortunately we do not always live up to this expectation and society experiences the consequences of this. Some people refer to incidents, others to a structural problem. The fact is that these incidents are highly visible and lead to mistrust over our services. We will never eradicate this if we do not make very clear what we represent.

7.1 The client

WHAT STAKEHOLDERS SAY

“Accountants should have to be separated from the management of the company being audited. Within the current relationships the legislator has done everything to make social interest in the audit subordinate to that of the management.
(...)”

We would like to propose that from now on accountants only accept assignments when they are issued by the supervisory board. Furthermore, the external accountant must report in detail to the supervisory board rather than to the board of directors of the company. We think there are sufficient indications in the research to substantiate this point. The research says yes, now put it into practice.”

Jan Bouwens and Jeroen Suijs,
both professors

“The law still allows scope to allow the assignment to be issued by the board of directors instead of by the shareholders or the supervisory board. This no longer happens with listed companies, but it does appear to happen outside that area. This may require an amendment to the Civil Code.”

Aukje de Vries, VVD (People's Party for Freedom and Democracy)

“Responsibility for commissioning in the Netherlands rests formally with the AGM and indeed via the audit committee of the supervisory board, which subsequently reports to the AGM . When everything is going perfectly, it's an excellent model. So the government can stay out of it. When the accountant or the audit committee goes along to the CFO and offers him the opportunity to save on accountancy costs using the drip-feed method or to influence the audit in any other way, that must be got rid of! This involves role definition and permanence of roles.”

Gerben Everts, AFM

“The accountant must receive the audit assignment from the general meeting of shareholders. In fact he should be directed by the supervisory board (audit committee) and thus not by the managers of the company being audited.”

Geert Koster, VEB (Dutch Shareholders Association) »

“...a good accountant has only one client and that is society. He serves the community. And if you want to serve the community well as an accountant, then you must dare to bite the hand that feeds you, namely the client who is paying for your services. You must be brave enough to say 'listen, client, I'm not signing this, I'm going to issue a press release saying that things are not right here'. I would call it giving them a red card.”

Jeroen Smit, research journalist

“The accountant is part of the system, and can't do it alone. That's why we have to ensure that non-executive directors accept their responsibilities as clients more so than they do now.”

Michael de Ridder, accountant

“Non-executive directors of companies are also not exempt from all blame. As long as the supervisory boards of companies allows the management or they themselves do everything possible to lower the accountant's bill, you will always run the risk of

a degree of dysfunctionality. A high quality accountancy audit has a price and it must be paid.”

Peter Diekman, professor

“Do we need global standards for audit committees? Should auditors solely engage with audit committees?”

Gerben Everts, AFM

“Society and politics do not understand, or do not want to understand, how difficult it is to provide an audit opinion for a large international concern. In my supervisory board role I see many good and professional accountants, but accountants should not wish to be accepted and understood by the whole of society. Define your role and determine who your client is. Provide accountability over the quality of your work to the client. For example, the supervisory board, not the whole of society.”

Peter Wakkie, non-executive director

The profession was created in a time when, as part of free market operation, parties who entered into commercial relationships with each other had a need for an opinion on financial accounting by an independent, financially expert party: the accountant. The accountant was then appointed at the request of the shareholders or the bank and paid indirectly by those parties. By the shareholders since the accountant's fees affected profits or indirectly by the bank which charged lower interest rates if approved annual accounts could be submitted or would strictly only provide finance if this was present. It was only much later that the legislator decided to make the audit a statutory obligation for medium-sized and large legal entities.

This is perhaps desirable with a view to the protection of shareholders of creditors who themselves are not in a position to stand up for their own interests and to insist on an audit. In the opinion of the working group this situation has also however created an increasing level of ambiguity concerning the role and responsibilities of the accountant. There are parties who think that as a consequence of the statutory compulsory audit, the accountant works for the whole of society and is considered to be able to detect all of the potential problems within a company which could affect society and to publicise them. The further parties distance themselves from the financial function and from the work of the accountant, the broader expectations of the accountant appear to be. The accountant will not be able to comply swiftly with this and the question is whether this is absolutely the aim of the audit. It is therefore important to define more clearly for whom the accountant is doing his work, who in a formal sense may derive confidence from the audit opinion and who the accountant can directly intervene with in the course of his work and its consequences. Apart from this everyone is free to establish that the accountant has issued an audit opinion on annual accounts and to draw their own conclusion from that.

It is also worth remembering the primary aim of the annual accounts themselves here. If we look at the aim of financial reporting it is notable that the IASB states in the Conceptual Framework (OB2) that “The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding

equity and debt instruments, and providing or settling loans and other forms of credit". The Dutch Guidelines for annual accounting appear to focus on a wider group of users, for example where this involves specific organisations for which specific guidelines are incorporated. But the Plan (line 10) also states that the provision of annual accounts which cover the needs of the providers of risk capital also comply with most of the requirements of other users, insofar as this can be done by annual accounts. The guidelines for annual accounting focus very closely on this.

The reporting rules which apply to companies (this can be different for other organisations) are in practice therefore strongly aimed at the provision of information for the purpose of commercial decision making by capital providers (shareholders and creditors). Although this information can be useful to other users, the annual accounts are not primarily intended for or set up for this. This also affects users on which the audit opinion primarily focuses. Nevertheless, it is difficult to imagine that the audit of the annual accounts is intended for a wider public than that for which the annual accounts are primarily intended. The suggestion that this could be the case can only lead to the disappointment of several interested parties.

The auditor formally receives the audit assignment from the shareholders and he reports to them. They are therefore the primary stakeholder for whom the auditor carries out his work and who may trust the auditor's opinion. The auditor however works for a broader target group than just the shareholders. Other financiers, such as banks for example, who attach value to an audit opinion of the annual accounts prior to providing finance. In practice the working group also sees that if companies are not covered by the statutory compulsory audit (small legal entities) and the requirement for an audit is determined by the market, auditing takes place almost exclusively at the request of these stakeholders: shareholders (for example the parent company) or banks. These are also the parties who (indirectly) bear the cost of the audit. This also appears to be the case in an international context where in some cases a much more limited statutory audit applies. These parties and/or their representatives and/or industry representatives, are generally in a reasonable position to interpret the work of the auditor. Other parties may also benefit from or derive confidence from the work that the auditor does for these direct stakeholders. It is indeed the question as to whether these parties may also expect the auditor to represent their interests, if they have not given the auditor any specific assignment.

At the moment the audit opinion over a company is addressed to shareholders. It is clear that the auditor works for a wider group of stakeholders and this remit is not consistent with society's expectations. However the accountant does not work for all of society. The working group argues for a remit which is more consistent with the audit opinion's primary target group: the shareholders and creditors of the legal entity and also in specific cases the other interested parties specifically named. By doing so the accountant clarifies for whom he works and in the opinion of the working group this also clarifies for whom he does not work.

One could debate whether, assuming this target group, it is appropriate that the shareholders formally instruct the accountant to implement the audit. Yet, if the accountant not only works for the shareholders, but also for the creditors, then it would be appropriate for the assignment to be strengthened by a body that represents both shareholders and creditors. The supervisory board would be eligible for this were it not for the fact that the supervisory board has a wider responsibility than protecting the interests of shareholder and creditors. The working group is of the opinion that this aspect of formal appointment is less relevant as long as it is clear for whom the accountant is working. Legally it has been the case for some time that the shareholders and/or the supervisory board provide the assignment and this is only done by the board of directors in exceptional cases. In the amended EU directive the selection of the accountant and proposal to the general meeting of PIE's is formally carried out by the audit committee. Practical experience however shows that board of directors often fulfils an important role in the process of the selection of an accountant. Accountants should not have allowed it to happen that in many cases the board of directors has become the tangible client. That is against the spirit

of the statutory laws and regulations and undermines a safeguard in the system of corporate governance. The working group envisages two measures to provide better guarantees that that responsibility for commissioning rests at the correct level in practice. Firstly the accountant must be prohibited from accepting an assignment individually which has not been provided by the supervisory board (or shareholder) or other supervisory body for companies for which such a body is established.

The working group is of the opinion that this should also be regulated in the Corporate Governance Code, since in a proper system of corporate governance it should be up to the general meeting (AGM or comparable body) and supervisory board to ensure that in all cases this is organised in this way.

A purely formal appointment by the supervisory board and general meeting will in practice however have only a limited impact on the actual relationships between accountant and management. For these reasons the condition which apply to both accountant and supervisory board (via the Corporate Governance Code) must go further. To whom the proposal is presented, who establishes the fee and to whom will be reported is of equal importance. To this end the working group also proposes that this must be the shareholder, supervisory board or supervisory board, or a comparable body in organisations for which the aforementioned bodies form no part of their governance.

It would also be desirable if the supervisory board, in the general meeting in which voting takes place on the appointment of an auditor, had to provide more specific information about the basis on which that accountant had been selected. For example going into further detail regarding a number of aspects of quality (such AFM findings) and the remuneration compared to the other offices that have been invited to present a proposal. See measure 7.2.

Measures to be introduced

- 4.1 The auditor may only accept an audit assignment or request to submit a proposal for an audit assignment if he has directly received it from the general meeting (or a similar body) or from the supervisory body (supervisory board or a similar body), if he presents the proposal to this body, if his fee is agreed with this body and if he reports to this body. Thus, the auditor will not accept a situation in which the management de facto selects and appoints the auditor, unless the director and the shareholder are the same person and there is no supervisory body present. If the shareholders and the supervisory body default, the (intended) auditor should advise the management to address the NBA for the appointment of another auditor.
- 4.2 The auditor will address the audit opinion to the shareholders and creditors, and in specific cases to other interested parties specifically appointed, of the legal entity.

7.2 The assignment: scope of the audit

It is clear that society expects more from the accountant than falls within the scope of the audit on the basis of the COS and ISA, in particular in the areas of fraud and continuity. Stakeholders have also stated that they expect the accountant to play a greater role in respect of non-financial information. What is also notable here is that differences exist between the expectations of the various stakeholder groups. In line with this, the research report 'Improving Confidence in the Value of Audit' by YouGov commissioned by the British Financial Reporting Council states the following, for example:

"In fact all the stakeholders that we spoke to have a good understanding of what the statutory remit of Audit is. An expectation gap does emerge between Auditors and wider stakeholders around the intended benefit of this remit. Those within Audit see it as one of many tools to protect the public,

WHAT STAKEHOLDERS SAY

“However, the measures taken by politicians and accountants appear to be inadequate, as they do not address the root of the problem - the vagueness concerning what an audit actually delivers and for whom.

The extent of this problem is evident from academic research: for decades now there has been an undiminishingly large gap in expectations between what interested parties think accountants do and what the audit actually incorporates.”

Joost van Buuren, senior university lecturer

“The systematic denial of the role of the accountant in detecting fraud is an example of this. “Society thinks: an accountant has visited, so it must be alright”

(.....)

I think that in future many more issues may end up falling on the shoulders of the accountant, which he must look at with a clear conscience: what can I do in this respect? Carefully weighing up risks, audits of financial reporting, risks in the financial sector. More widely over governance, sustainability and ultimately integrated reporting, and so on. This yields the question: should that not be tested independently? And if you ask the accountant that, you're ready straight away.”

Gerben Everts, AFM

“I'm very traditional about this: first allow the accountant simply to perform his statutory task properly. Only then can you consider other forms of assurance. In this respect, the accountant only has the right to comment, when there is nothing more to say about his actual work.”

Marcel Pheijffer, professor

“I hereby request the government to also pay attention to continuity in the audit opinion, so that a company or institution does not go bankrupt a month or year if things go wrong. This must be evident from the audit opinion.”

Henk Nijboer, PvdA

“Although predicting bankruptcy is not the aim of the audit, investors and other interested parties to a company still assume that an accountant will provide a timely warning if something is about to go wrong. But actually how good are accountants at predicting serious problems?

(...)

This does not detract from the fact that all of the research gives the impression that accountants could certainly use some help when studying the crystal ball. That help is available in the form of mathematical forecasting models, such as the Z-score created by the American professor Edward Altman or the OK-Score of Dutchman Willem Okkerse.”

FD (editor)

“There is one sector in which it is very difficult though and I myself am not completely put off by it and that is namely the financial sector. Because banks exist on the grace of confidence and if the accountant says to the bank 'we'll have to see if this gets better at the end of the year', the bank is already ruined.”

Henk Nijboer, PvdA

“In the event of bankruptcy or malpractice the accountant must provide full openness about his activities. In the event of bankruptcy within a year of the issue of an approved opinion without reservation, he will have to provide full access to his audit file for inspection. That applies to everyone: AFM, disciplinary judge, official receivers and every interested party. An appeal for confidentiality is undesirable in that case.”

Geert Koster, VEB (Dutch Shareholders Association)

“First you need to get the annual accounts audit completely in order. “An important pillar of trust is that a company can submit verified information with which it is documented as being or having been in a position to create value. This verification is in itself has a great deal of value.”

Jan Bouwens, professor

“I would just like to have a different debate. Not a debate with the pretence that we can design a system which rules out accounting scandals, but a debate about how much assurance accountants can actually provide, who will pay for it and what it may cost.”

Kees Camfferman, professor

whereas others see it as the primary protection that investors and society have against corporate malpractice and financial failure."

Stakeholders who have more direct insight into the work of the accountant and have more confidence in the work of accountants see the accountant as a link within the overall governance system which is primarily responsible for that annual accounts audit. Stakeholders who are more distant from accountants and who have less trust in the work of accountants, are of the opinion that accountants are there to protect society from all of the potential failures which occur within companies.

This discussion becomes most specific when it comes to the discovery of fraud and the prediction of discontinuity. The most far-reaching expectations for example were expressed by:

- Gerben Everts, expressing the expectation of social interaction in relation to fraud:
"Society thinks: an accountant has visited, so it must be alright"
- Henk Nijboer on the subject of continuity: *"I hereby request the government to also pay attention to continuity in the audit opinion, so that a company or institution does not go bankrupt a month or year if things go wrong. This must be evident from the audit opinion."*

There is for example a more restricted vision of the role of the accountant, which focuses on the verification of historical information, within the financial system:

- Jan Bouwens: *"An important pillar of trust is that a company can submit verified information with which it is documented as being or having been in a position to create value. This verification is in itself has a great deal of value."*

We also hear from various non-executive directors that a number of parties within the social debate treat the role of the accountant too broadly and in doing so have expectations which are not realistic. They propose to manage those expectations more and to be clear about what an accountant does and does not do. This applies both to the target group for which the accountant works and the scope of the audit which he subsequently carries out. For example does the accountant work for the current shareholders, who may delegate the assignment to the supervisory board, or for the whole of society? The position of one non-executive director to whom we spoke was that it cannot be possible for parties other than those directly involved who issued the assignment to address rights related to the work of the accountant.

In respect of the scope it continues to be evident that the accountant is not clear about this. One stakeholder illustrated this as follows: "So you then say that the audit is not aimed at discovering fraud, but then that you look at it a bit. And that you can't provide any guarantees for the survival of the company, but you do say something about it. Be clear. Don't do it, which would be my advice, or do it properly."

In respect of continuity, a crucial question is what the added value of the accountant is in assessing the viability of a company. Should this assessment form part of the work of the accountant or should stakeholders create this assessment themselves on the basis of the information which is provided by the annual accounts and other sources on cash flow, profitability and the balance sheet position of the company. It is clear that a proportion of stakeholders expect accountants to provide warnings about continuity risks. That is however slightly different to predicting bankruptcy. The working group is of the opinion that the accountant can provide relevant information about continuity risks but that predicting bankruptcy is a different matter altogether. Some stakeholders refer to existing models such as the Z-score and Okkerse's OK-model. Credit-rating agencies use their own models to estimate such risks. It should be able to be argued then that accountants should interpret these models and then

communicate the results to society. In the opinion of the working group this is not a logical situation and the accountant thereby will not deliver any added value. Market parties have had these models at their disposal and can interpret them on the basis of the annual accounts information audited by the accountant and draw their own conclusions.

The role of the accountant must focus on the specific added value which he can provide on the basis of the information and insight which he acquires during the audit. Two models have already been tested in practice. The first is the model in which the accountant reports continuity risks on an exceptional basis. The advantage of this model is that it provides the reader of the audit opinion with a specific signal that the company is entering the danger zone. The disadvantage is that it requires that somewhere in a continuum an arbitrary line is drawn before the risk of discontinuity becomes significant versus the moment when that is not yet the case. That point is however arbitrary and can also create a self fulfilling prophecy, as expressed by Jan de Rooy at Accountant.nl: “...each organisation is constantly slightly healthy, but also slightly bankrupt”. The second is the model in which the accountant reports on the continuity of the company as standard. This has the potential advantage that it can do more justice to fine nuance and does not require a black and white approach, but the disadvantage is that passages in the opinions soon become standard texts.

The working group sees the solution in a model which reflects the most significant risks to the continuity of the company and which states how significant those risks are. Every company has to deal with continuity risks. These vary by company, but the degree to which they are acute also varies. A more nuanced analysis of these risks does more justice to this issue.

The working group is of the opinion that the assumption of this user requirement, especially in view of the accountant's place within the overall governance system, should be amended if the company itself is obliged to include a nuanced analysis of its continuity risks in its annual accounts or annual report. In the first place it is the management of the company which must provide accountability over the company's financial situation, strategy and risks and not the accountant. Furthermore, the annual report or annual accounts provides more opportunities for a detailed and nuanced analysis than the audit opinion. If this situation is reached, the auditor can, in his audit opinion or in a separate review report, provide an explicit opinion on this analysis. In this model the relationship between the company and the auditor is as it should be: the company is accountable and the auditor provides an opinion on this. By reporting explicitly on opinion in respect of the management's risk and continuity analysis more clarity is provided to the interested parties in the opinion on what exactly the auditor has added to the other information which the investor already has at his disposal in order to form an opinion. This obligation for the board of directors to report should be imposed by the legislator so that the auditor can subsequently provide an opinion on this.

In the working group's opinion the following routes are available in respect of fraud. One possibility is for extensive fraud investigation to become a standard component of every audit. A second option is for fraud investigation to be completely removed from the scope of the audit. It is then up to the shareholders to decide whether or not to engage with any regularity an accountant or other expert to investigate fraud in a company. Both methods put an end to the half-hearted approach to the issue of fraud within current laws and regulations, but in the opinion of the working group neither is desirable. Fraud is an important subject from society's point of view. As gatekeeper to the detection of and fight against fraud, the accountant can and must play an important role. To do nothing in relation to fraud is not consistent with society's expectations. It is therefore proposed that in the audit more attention, time, people and resources are spent on the risk of fraud. Extensive fraud research as a component of every audit would however be financially irresponsible since the costs of the audit would increase significantly. The working group is arguing for a middle way whereby within the system of corporate governance a significant role is devoted to the coordination between the supervisory board (or other supervisory body) and the auditor over identified fraud risks and the investigation carried out by the

auditor in respect of these risks. The working group also sees a need for innovation in the audit by the use of tools as data-analysis in identifying fraud in reporting. Audits must be reinforced and intensified in this respect.

Finally, the working group has considered the call to extend the role of the accountant to non-financial information and integrated reporting together with the criticism of this. The audit is at most as relevant as the information to which it relates. It is certainly possible therefore to make the opinion role of the auditor more relevant by extending this to other information which is relevant to the user of the annual accounts. In the working group's opinion however restraint is appropriate here. The measures taken in the short term must be aimed at areas in which the relevant stakeholders at this moment in time expect the auditor to have a role which is not currently fulfilled by the auditor. The requirement for an extension of the role of the auditor can be researched in a more in-depth stakeholder dialogue, but must in principle be left to the free market. Where stakeholders have a need for this role they can urge companies to engage an auditor on their behalf to provide this information with a degree of assurance. This is also the situation in which the accountancy profession came about and thrived. A situation in which market parties had a need for assurance from an independent, expert party without the existence of any statutory obligation to that effect. It was only later that the role was legally established due to the importance attached to the audit. In the opinion of the working group it is important that the accountancy profession continues to prove its added value for society in a market environment which is influenced by the needs of providers and users of information. Legal establishment must remain restricted to situations in which the added assurance provided by the auditor is of great importance and individual interested parties are not in a position to regulate the acquisition of that assurance independently.

There does appear to be a difference in the expectations which interested parties have in respect of the role of the auditor in the annual report and the role which the accountant formally fulfils. A proportion of users expect the auditor to provide a more definitive opinion on the continuity analysis, risk section and corporate governance information. Partly in the light of the issue surrounding the role of the auditor in respect of continuity risks, as outlined above, the working group is of the opinion that this requirement can be met. This can be done by allowing the auditor to report explicitly on his opinion on the risk section and the corporate governance information in the annual report, instead of deciding to leave this as more implicit in the overall opinion. As a part of this, the role of the auditor in the annual report will become much clearer to users. The content of the annual report is more qualitative in nature and consists partly of opinions and expectations. The degree of assurance which the auditor can provide over this is different to that for the annual accounts.

The working group is proposing to make the role of the auditor more explicit in the annual report by incorporating a separate review report or an opinion in which the level of assurance is provided for integration in the audit.

Measures to be introduced

- 4.3 The auditor will issue a separate opinion with the annual report (as referred to in Section 2:391 of the Dutch Civil Code). In this opinion to the annual report, the auditor will explicitly give his opinion on the risk section, continuity analysis and corporate governance information as it is incorporated in that annual report. If required, the auditor will make a supplementary reflection on these topics. The NBA will issue further regulation on work to be carried out in the context of this opinion. It is being researched if, considering the other degree of security that is provided, this explicit opinion may be incorporated in the annual report as a separate part of the audit opinion to the annual accounts.
Note: The requirements for the annual report have to be changed for the proper functioning of this measure, also see chapter 10.
- 4.4 The auditor explicitly reports to the supervisory board (or similar supervisory body) on fraud risks under ISA 240 and the possible material impact on the annual accounts that he acknowledges, coordinates the audit programme that he conducts in view of those risks with the supervisory board, and specifically reports on the work performed by him. The deployment of data analysis must be part of the audit plan that is aimed at covering fraud risks. The NBA will issue further regulation or guidance on the work to be performed and coordination with and reporting to the supervisory board in view of fraud. If a fraud case arises, the supervisory board as well as the auditor will report it to the general meeting (or similar body) insofar as it is related to fraud risks acknowledged by the supervisory board and auditor, and on the evaluation of the supervisory board, and auditor on the auditing work performed relating to these fraud risks.

WHAT STAKEHOLDERS SAY

“These public management letters are unique in simplicity and impact” (...) “It is bridging the gap between the confidence to which individual accountants have always adhered to date and the public which wants to be informed.”

Gerben Everts, AFM

“We think that the audit should contain more information than is currently mandatory. That is important to shareholders.”

Aukje de Vries, VVD (People's Party for Freedom and Democracy)

“...the inclusion of more information in the audit, such as the most significant risks to continuity, the methodology, reliability of that methodology and material requirements. Work is being done internationally on the extension of standards for a more informative audit opinion. I am very much in favour of that.”

Jeroen Dijsselbloem, Finance Minister

“The accountant must submit a detailed audit opinion, in which he examines his audit and its findings. If necessary he must provide an explanation during the shareholders meeting. He must be able to answer questions about it honestly without being impeded by confidentiality. The accountant must be aware of his social role: a critical auditor who provides timely warnings.”

Geert Koster, VEB (Dutch Shareholders Association)

“The Confederation of Netherlands Industry and Employers known as VNO-NCW is adamantly against the removal of the duty of confidentiality of accountants. The audit only functions if confidentiality is guaranteed. The duty of confidentiality on the other hand must be removed from investors in full or in part.”

Accountant.nl

7.3 Reporting

There exists a clear need for more information provision by the accountant regarding his work and his findings. In recent years the NBA has taken the initiative to publish public management letters and accountants have played a more active role during many AGM's of listed companies. Both initiatives have been received almost unanimously positively by stakeholders.

In the 2013 accounting year various accountants also issued a more detailed audit in which attention was paid in each case to so-called 'Key Audit Matters', continuity and in a number of cases, materiality and scope. This also received generally positive responses in which stakeholders also put forward suggestions for improvement.

The working group considers it important for these initiatives to be followed up and that they are made compulsory, at least in part. Not only does this provide more insight into the users of the opinion, it also does more justice to the nuanced and complex environment and situation in which the accountant works. A nuanced reporting method which goes further than merely providing an opinion on whether the annual accounts are right or wrong suits this environment.

The working group has also discussed with the parties and monitored discussions about the further extension of reporting by accountants and related the desire or need of whether to observe the current duty of confidentiality or not. This discussion focuses for example on whether or not to publish the accountant's management letter, or the most important points contained therein. The working group is proposing that the profession begins an active debate on this subject with all of the relevant stakeholders and that on the basis of this, attempts are made to arrive at a clear and workable model with which all of the parties involved can agree. Before this process is completed we recommend working from the assumption that shareholders within the current system of governance must themselves make use of the resources at their disposal to demand of the board of directors and the supervisory board that the required information be provided, if desired. The accountant is not there to replace a poorly functioning or transparent supervisory board or board of directors. Naturally the accountant must enable this provision of information by the board of directors or supervisory board.

Measures to be introduced

- 4.5 The auditor will issue an extensive audit opinion for all PIE's and other institutes to be specified by the NBA. In this, he provides more information on the key audit matters, the audit methodology and work performed and materiality used. He reports on the continuity risks reported by the company in the opinion to the annual report. Also, the auditor actively speaks at the AGM (or similar meeting) to outline his work. This will be coordinated by the auditor with the supervisory board (or similar body) beforehand. If he is not given permission to do so, he should not accept the assignment.
- 4.6 The auditor must allow the supervisory board and board of directors (or similar bodies) at all times to provide information on the content of the management letter in the annual report or during the general meeting. In such case, the auditor will ensure that this information is correct and balanced.

Measures to be researched further

- 4.7 Given the current statutory obligation of confidentiality, the profession and stakeholders are researching to what extent it is recommendable and possible that the auditor pro-actively reports on the contents of his management letter (or board report). This also applies to the corrections made at the instigation of the auditor and whether in more cases than now an obligation to speak should apply to the auditor. Until research is completed, the auditor will make clear that if shareholders believe that the management or the supervisory board must report more actively or more comprehensively, they should solve this within their own governance with the means they have available.

7.4 Limits of the statutory compulsory audit and PIE definition

WHAT STAKEHOLDERS SAY

“Are we a profession which benefits the public interest or an industry which benefits the market? If it is the second case then you have to abolish the audit requirement. If it is the first case my remedy is as follows: drastically increase the threshold for the compulsory audit - which extends the definition of PIE - and where that affects public interest, increase supervision so it is much tighter than it is now..”

Marcel Pheijffer, professor

“There is a discussion to be had on the question of whether you should extend the threshold for compulsory audits, for example in exchange for greater joint and several liability of business owners.”

Eddy van Hijum, CDA

“Amendment of the obligations for a statutory audit, stricter standards and tightening of supervision at the top of the market (in any case

in the Public Interest Body-segment). Elimination of the statutory audit obligation at the lower end of the market (SME segment major part).”

TUACC

“To give transparency and assurance a boost, should we be able to extend the list of PIE's.”

Roland van Vliet, Van Vliet faction

“The appeal which would also like to make is to ensure that we stick firmly to this. That we upscale not only the housing corporations (...) to become what would be called PIE's. (...) Actually we think that a great many of these types of sectors, financed with public money and with great social interest should also be covered by this qualification.”

Gerben Everts (housing corporation parliamentary enquiry), AFM

As outlined above the accountant has traditionally performed his task for parties which operate in a market environment and perform transactions. The accountant has proved his added value for those interested parties for many years. We currently also see an increasing number of situations in which market parties see value in engaging an accountant, without the existence of a statutory obligation to do so. A statutory obligation has advantages for interested parties which are not in a sufficient position to persuade the company to have an audit carried out by an accountant on their behalf or to appoint an accountant themselves. The working group discovered however that the statutory audit obligation leads to a lack of clarity about the role of the accountant in economic market activities. Several parties are of the opinion that a statutory task entails that the accountant fulfils a role for the whole of society in respect of everything which goes on within a company. Other parties are of the opinion that statutory

regulation does not change anything about the basic concept of from where the accountancy profession originated and that the accountant should only focus on assurance on annual accounts for a restricted group of users, the accountant's clients. Such differences of opinion also influence discussions on how the accountancy profession should be organised and regulated, now or in the future.

Discussions with stakeholders also taught us that there is a requirement for forms of assurance which are more tailored to the interested parties from the accountant for a proportion of the companies which are currently covered by the statutory obligations. We see that there is a large group of (mostly smaller) companies where the most important group of stakeholders (such as banks and other creditors) attach special interest to a different form of security which focuses more on the accuracy of the profit and equity capital and in which less importance is attached to the audit of the accuracy of the turnover, for example. In this group an audit which focuses on accuracy and completeness is not necessarily effective, given these user requirements.

In an environment in which stakeholders themselves determine the content of the assignment (outside the statutory audit domain) stakeholders and accountant can coordinate this jointly and adapt the assignment(form of assurance) to this. The working group is proposing to carry out research into the desirability of the introduction of such an alternative audit which focuses more on the accuracy of the profit and equity capital or another form of assurance and related opinion for a proportion of the companies which are currently covered by the statutory audit domain. The working group is of the opinion that the profession can deliver a significant contribution to the research requested in motion 32681-10 into the advantages and disadvantages of increasing the exemption threshold for the compulsory audit of annual accounts. The profession must actively contribute to insight into these advantages and disadvantages. The requirement for and opportunities for different forms of assurance in smaller companies should form part of this.

The working group would also wish to make research into the modernisation of the profession and audit standards in such areas part of the remit of the scientific research institute (see measure 5.10).

The working group is also of the opinion that current audit standards are still inadequately focused on modern audit techniques, such as data analysis. They are not consistent with the application of these, but place the emphasis on more traditional audit techniques. In a more general sense the working group has observed that innovation is at odds with a strongly regulated environment. For this reason also the working group is of the opinion that it is important for it to be possible for a larger group of legal entities to engage an accountant for other forms of assurance which are tailored to specific interested parties. More scope is created within this environment for innovation which will ultimately also benefit statutory audits. In contrast it was concluded relatively recently that there is a specific group of legal entities, PIE's, which fulfil a specific role within society for which additional laws and regulations are indeed required to provide extra reinforcement for the role of accountant. In this report we also propose a number of measures which focus specifically on accountants or accountancy organisations which audit such PIE's. The working group has considered whether it would be appropriate to extend certain measures which currently only apply to the audit of PIE's or accountancy organisations which audit PIE's to non-PIE's. Stakeholders stated pretty much unanimously that in their opinion it is not appropriate and could even be harmful to Dutch business to proceed with this. This is for example in view of the costs which SME's could incur for certain measures. Various discussions show however that society attaches an interest to a larger group of legal entities than the group which is currently considered to be PIE's, which would justify these laws and regulations. These are for example other organisations with a social function, organisations which are financed primarily by public funds or other organisations with a broad group of stakeholders (such as certain cooperatives).

The working group is of the opinion that the right combination of free market operation in which the accountant must continue to prove his added value to interested parties and statutory obligations for a

specific group of legal entities with strict additional laws and regulations for organisations which are the most important to society, will lead to the right incentives for accountants to continue to fulfil their role in economic market activities.

Measures to be researched further

- 4.8 The profession (NBA) actively contributes to research into the possibility of raising the limits of the statutory compulsory audit and, as such, to challenge the accountant to continue to prove his relevance for stakeholders. As part of this, the profession is researching the advisability to make other forms of security possible for a certain group of companies.
- 4.9 The profession (NBA) is, in consultation with the Ministry, researching whether it is advisable to classify more institutes as PIE and to apply the already existing regulation and part of the proposals incorporated in this report to a larger group of accountancy organisations and audits. For instance, organisations that are financed from public means such as (semi-)public institutes, but also certain non-listed companies, which as a result of their size, objective or structure, are characterized by a larger group of stakeholders. The working group is of the opinion that the definition of PIE's should in any case be extended to housing associations, care and educational institutes, provinces and municipalities of a size to be further defined.

8. CONSTANT QUALITY MONITORING AND IMPROVEMENT

8.1 Definition of quality and quality indicators

WHAT STAKEHOLDERS SAY

“Over the years, many organizations have sought to define audit quality, with little consensus.”

Public Company Accounting Oversight Board – United States

“The term “audit quality” is frequently used in debates among stakeholders, in communications of regulators, standard setters, audit firms and others, and in research and policy setting. Audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition.”

International Auditing and Assurance Standards Board

“How is it possible that management still has to hear from the stakeholder that there are shortfalls in quality. This shows that internal management is still inadequate.”

Gerben Everts, AFM

“Which factors can improve the quality of audit standard setting?”

Gerben Everts, AFM

“And has audit methodology moved sufficiently with the times? Is the provision of training and permanent education adequate?”

Marianne van der Zijde, AFM

The measures we propose are intended, amongst other things, to increase the quality of the audit. It is evident from the statements of various stakeholders however that the meaning of quality is not clearly understood. For example, politicians may have a different understanding than audit committees and shareholders may think differently to academics. This influences the opinion given by a specific group of stakeholders on the performance of accountants. An element of society regards the opinion of the AFM on the quality of audit files as the benchmark of quality. It is true that the profession itself has established a major part of the standards with which a good accountant must comply, but their interpretation in the present cases appears to differ in insight. This is an undesirable situation in the opinion of the working group. It is important that the profession (and/or accountancy organisations) and the AFM enter into discussions in a positive manner in order to come to agreement on the definition of quality. Where this appears necessary further interpretation of laws and regulations should be insisted upon by the legislature, for example the NBA where NBA laws and regulations are concerned.

It is necessary to have a continuous and constructive dialogue, in which common insights are sought, which questions and attempts to understand each other's positions and which attempts to bridge differences of opinion, so that both parties assume the same standard and interpretation. This contributes to an effective dialogue over the common interest: high quality audits and the trust of stakeholders in the audit opinion. If that is achieved it may be expected unreservedly for accountancy organisations to arrange their internal organisation around compliance with that standard and for the supervisory body to test this. Remaining differences of interpretation in individual cases should be submitted to the courts (Accountant's Court) to pronounce judgment on the basis of a transparent process so that all parties may learn from this. These verdicts could also form an input into the tightening or clarification of laws and regulations.

Even if quality can be defined, it still cannot be observed very well by the users of the annual accounts and accompanying audit opinion to whom quality is important. They will have to rely on it, for example in cases of fraud discovered at later date, an unexpected bankruptcy or an error discovered at a later date in a set of previously approved annual accounts. These discoveries could mean that the audit was not done properly, but that need not necessarily be the case. And vice versa, it does not need to be the case that if these issues do not arise, the audit was by definition one of high quality. It is precisely this complexity which makes the definition of quality or of the issues which contribute to a high quality audit crucial, however difficult this may be. Subsequently it is also important that accountancy organisations inform society of the degree to which they comply with quality standards so that society can form an idea of this and put the cases described above into the right context of the quality management system.

Even if no formal definition of quality exists, everyone will be able to form an idea of the things which are present in a high quality audit. The International Auditing and Assurance Standards (IAASB) cites for example:

- Adopt the correct (ethical) values and conduct.
- Sufficient knowledge, skill and experience.
- Sufficient time and resources to carry out a good audit.
- A robust audit process, subject to adequate quality control.
- Conformity with laws and regulations, including audit standards and independence regulations.
- Relevant reporting and interaction with stakeholders.

Quality must be guaranteed at various levels within the profession. As we stated earlier, quality must be part of the mindset of every individual, of every organisation and of the entire profession. Responsibility for quality exists at every level and must be clear and properly attuned. Becht and Lemaire (2009) cite two types of quality philosophy within the context of jurisprudence: line-managed quality philosophy and professional quality philosophy. They indicate the importance of a good synthesis between these two philosophies in which line-managed philosophy is driven by management of perceptible and measurable items (vertical accountability) whilst with professional quality philosophy the individual must mainly be driven by quality standards from within the profession and his responsibility toward the profession (horizontal accountability).

Naturally, quality must be driven by the management of accountancy organisations and to this end it is necessary to measure things and to challenge (vertically) people about their conduct, coaching and performance in terms of quality. More important however is the creation of boundary conditions and the stimulation of the provision of quality by individual professionals within the organisations, for example by investment in quality and innovation, education and training, by allowing people to review each other and to address quality, making sufficient time available for substantive coaching and increasing the learning capacity of the organisation.

Companies are becoming larger and more complex and so therefore is the auditing of those companies. The requirements imposed on accountants will continue to increase. This requires further investment in quality. The investment necessary to keep up with developments in the commercial sector and to carry out good audits in the future will be considerable. This will involve for example essential investment in data analysis and other audit software. We must however be realistic in this respect. The sums associated with this level of investment are huge; estimates which we heard in our interviews ranged

from many hundreds of millions of euros to more than a billion euros. The Dutch organisations alone cannot make these investments and they will do it only via their contribution to the international network of which they form part and within which they also jointly invest in these developments; see also paragraph 3.2.

One concern which the working group has is how the firms which are not linked to an international network can make the investment which is necessary for a future-proof audit methodology. The working group sees a role here for the NBA in cooperation with parties such as the Regional Accountancy Firms Cooperative (SRA) and the Dutch Accountants and Accountancy Firms Organisation (Novak).

Investing in quality is also mainly investing in people and in daily practice. For example this could be investment both at an individual contract level (for example partner involvement, sufficient time and budget) and investment at an organisational level (for example training sessions, technical department, quality reviews, involvement in NBA and other committees and publications which assist accountants and companies to improve their organisation and reporting). Both experienced and less-experienced accountants state that the time and attention spent by more experienced team members, including the partner, on high quality coaching of the less experienced team members, is crucial to the quality of the relevant audit and to the employees' learning curves. It is important that the organisation focuses on this, that sufficient time is budgeted for this, that it is separate to the price agreed for the audit and also that people are assessed on this. In that context we refer you to the measures in chapter 6 surrounding remuneration and earnings. Employee satisfaction and individual feedback on the management provided must absolutely be incorporated in this.

The working group has noted the suggestion to make it compulsory for a share of the firm's profits not to be paid out and instead to be invested in quality. However, in the opinion of the working group, this model is not appropriate to the situation in which almost all investment by an accountancy organisation in quality is already to the detriment of that profit either via payments to the international network or via the operational costs incurred for the aspects referred to above, such as training and professional expertise.

Accountancy organisations must gain and provide more insight into the factors which influence audit quality. The working group therefore makes a case for determining, with the assistance of the academic research institute (see hereinafter) which activities and investments/expenditures are important to achieve an audit process and quality control system which is desired by accountants and stakeholders. These might be input parameters such as sums and hours which are invested in internal and external training sessions (including the use of employees involved in teaching accountancy), professional expertise and internal quality reviews, the relationship between the hours of partner(s), manager(s) and assistant(s) on assignments, the attention paid to coaching, the number of audit hours per phase of the audit before the end of the accounting year and after the end of the accounting year, the percentage of hours spent by experts and suchlike. Reporting on the results of the audit process and the quality control system, such as internal and external review findings (and measures taken), claims received and complaints and the outcomes of these. In the working group's opinion, by measuring, managing and reporting on the basis of a consistent set of indicators, a number of goals can be achieved:

- It gives stakeholders insight into the actual investments in and results of quality management and enables comparisons between firms on these aspects.
- It contributes to active learning within the organisation.
- This information (and the underlying details) lends itself well to academic research into the relationship between these aspects and actual audit quality (root-cause analysis). On that basis certain indicators will become redundant over time and other indicators will be added (see also paragraph 8.3 on academic research).

- This information can enable the supervisory body to arrange its supervision more effectively and more efficiently.
- This information can enable legislatures to determine more exactly in what areas laws and regulations are worthwhile or otherwise.

Appendix 2 contains examples of quality indicators which the working group is considering in this context. The indicators to be reported 2015 and 2016 respectively must be established definitively by the NBA before the end of 2014. If an organisation cannot report on one or more of the indicators in 2015 because the information does not exist within the organisation then this is to be stated in the reporting and guarantees provided that this information can be reported from 2016 on. The set of indicators will change over time on the basis of stakeholder input and the results of research by the research institute. Stakeholders can assess via these indicators whether the correct boundary conditions for quality can be created and which items do or do not contribute to quality can be researched.

Many stakeholders see the number of hours spent on the audit as a significant indicator of quality. This also links in with the aforementioned importance of thorough management of less experienced team members. Naturally, the quality of the audit cannot be derived from the number of hours spent in itself. Organisations which invest more in innovation and technology are potentially in a position to carry out the audit more efficiently than organisations which invest less. As applies to all indicators, they are at best a surrogate benchmark which provides an indication on quality but which is not conclusive. Yet these indicators form a good basis for a robust dialogue between accountant and stakeholders over audit quality. They provide stakeholders with the opportunity to question the accountant critically about the audit which has been carried out and the accountant the opportunity to explain properly how he has safeguarded quality. For this reason the working group proposes that accountants are obliged to report to the supervisory board how many partner and team hours have been spent on the audit so that a discussion about this can also take place with the supervisory board. And so that the accountant can explain how he is able to carry out a high quality audit with the expenditure of that number of hours.

In a culture focused on quality it is also important for accountants to critically assess each other's work, challenge each other on poor audit quality and to actually do this. In the past the Engagement Quality Control Review (EQR) was introduced whereby for certain audits within a firm, the work of the audit team is assessed by one or more people who had not themselves been involved in the audit prior to the issue of the audit opinion. This is a measure which is relevant to safeguarding audit quality. The working group proposes to extend this measure further and to increase both the number and depth of these assessments. The importance and usefulness of this advance quality assessment is greater than the importance of retrospective quality assessments. The latter of course leads only to conclusions and sanctions after the event, whereas the annual accounts and audit opinion are already in use in social interactions at that time. In the event that consequences (assessments) are linked to the assessment of the quality of the audit carried out before the opinion is issued there should be a discussion regarding whether if it can be established that retrospective quality assessments even serve any purpose should be had. In order to increase quality and depth and to adequately support the Assessing EQR partner (or experienced accountant from outside the organisation) in his role, there must be a team within an organisation which supports that EQR partner in his quality assessment. In the opinion of the working group it is also important to develop a framework for the role of the EQR partner and the EQR team, on which basis it is clear what the role and responsibility of the EQR partner and the EQR team is, including the scope of the assessment. This however should not lead to a checklist and an EQR implementation which focuses on compliance, rather the EQR must focus on the most critical aspects of the audit.

In chapter 6 we examined the remuneration model which should reward quality and penalise the neglect of quality. Quality is a collective responsibility and it is therefore also the responsibility of the organisation to help and guide individuals in achieving the required quality, for example by investing in training and resources, such as software. The working group is also of the opinion that if an audit partner is assessed as poor in quality an intensive improvement path must be started in which the partner is intensively subjected to EQR's, amongst other things. If an improvement path does not yield any results, this will ultimately have consequences for the signatory authority of the partner concerned.

Finally, the working group notes that the compulsory rotation for PIE's is prompted by the wish to strengthen the independence of the auditor but that there are risks in terms of quality. This applies specifically to the initial years following the transfer of an audit assignment when the auditor is still less familiar with the company and the concerns requiring attention than the departing auditor who has known the company for a much longer period already. It is true that the succeeding auditor will take the initiative to contact his predecessor to familiarise himself with important issues, but that only provides a limited transfer of knowledge. In one of the interviews with stakeholders it was proposed to organise a process in which the auditor leaving is also responsible for the full and complete transfer of information required by the succeeding auditor in order to carry out his audit as effectively as possible from his first year. The working group is of the opinion that this procedure is appropriate in view of the wider responsibility of the profession to guarantee the quality of audits and to limit the negative effects of a change of auditor on companies and stakeholders. The working group is proposing in the short term to design and implement an audit standard which contains provisions for both the incoming auditor and the departing auditor and which provides a timely and complete transfer of information, including the transfer of information at the beginning of the proposal process in those cases where the current auditor is not invited to the proposal process (for example during PIE rotations). Items including the risk analysis, the assessment of important reporting choices and estimates and other relevant working papers must be shared. The transfer must be laid down in a transfer document which is signed by both accountants. The intended incoming auditor must attend discussions of audit findings between the current auditor and management and supervisory board from the moment that the supervisory board decided to propose him to the general meeting for appointment (and/or to appoint him). If the audit for any year is called into question by the supervisors or otherwise (i.e. in proceedings at the Accountant's Court), the performance of the transfer by the auditor leaving must also be investigated and it should be determined whether he failed to transfer relevant information in conflict with the new audit standard, to the new auditor in respect of the current topic.

Measures to be introduced

- **5.1** Accountancy organisations must report on a set of quality indicators, including indicators in the field of leverage and coaching, in the transparency report or annual report, the internal objective or norm for the indicator concerned, the actual result over the past year, and the actions to be taken if the result differs negatively from the objective or the norm. The indicators proposed by the working group are set out in Appendix 2 to this report. The indicators to be reported in 2015 and 2016 must be definitely established by the end of 2014 by the NBA and are periodically adjusted on the basis of results from scientific research and dialogue with stakeholders.
- **5.2** The auditor reports to the supervisory board (or other supervisory body) of the legal entity audited how many partner/director and team hours he is expecting to spend (estimate) and how many were actually spent (subsequent calculation) on the audit. The auditor substantiates how the deployment of these hours, in combination with other audit methodologies, leads to a high-quality audit.
- **5.3** Engagement quality control reviews (EQR) are to be performed by an EQR team with senior team members under the direction of an experienced partner (or experienced partner from outside the organisation). The members of the EQR team are permanently, for a precise time period, or for a substantial part of their time available to perform the EQR's. Several files of a control partner must be covered by an EQR each year.
- **5.4** The role and responsibility of the EQR team and the person who directs the EQR, including the scope of the review, must be clearly arranged in the Regulation on Accountancy Organisations, however, without prescribing the work to be performed in detail. The aim should be to connect with international developments in this area.
- **5.5** In the event that it is determined that audit files and work of an audit partner do not meet the quality requirements, an improvement plan must be drafted by this audit partner, in addition to the effect on the remuneration described in chapter 6, in conjunction with the compliance offers and a board director who is responsible for quality. This improvement plan must be worked on during a period of two years, and the number of EQR's of this partner must be significantly intensified. An evaluation must take place after two years on the development and quality in that period and it must be decided if the audit partner can continue having authority to sign within the accountancy organisation. For this purpose, a motivated decision is to be submitted for approval to the supervisory board.
- **5.6** Introduction of an audit standard which contains provisions in the event of a change of auditor, that render both the new and former auditor responsible for the full transfer of all information, including the transfer of information on the start of the proposal process in cases where the current auditor is not invited to the proposal process (for example for PIE rotations). If the audit for any year is called into question by the supervisors or otherwise (i.e. in proceedings at the Accountant's Court), the performance of the transfer by the auditor leaving must also be investigated and it should be determined whether he failed to transfer relevant information in conflict with the new audit standard, to the new auditor in respect of the current topic.

8.2 Training

WHAT STAKEHOLDERS SAY

“I am now receiving a disturbing report. Various sources have confirmed that firms have imposed an obligation on student trainees to opt for a study period and catch-up period during the summer.. Holidays, free time and work-life-balance, all out of the window.”

Tom Ooms, accountant

“In addition to individual motivation and application, students absolutely need the firms and universities. That's why we, as universities, must remain in discussion with each other, with our students,

the firms and our professional colleagues and organisation. Only by working together can we define the profile of the future accountant and firmly establish the formation of the new generation in practice, career development and training.”

Olof Bik, Nyenrode

“You must look at how much money large firms invest in quality. Almost nowhere do you see as much money spent on training as in the accountancy sector.”

Arnout van Kempen, compliance advisor

The training of young accountants is of great importance to the quality of the profession, now and in the future. The NBA and the Final Terms Accountancy Training Committee (CEA) are already working on the revision and modernisation of the training and practical placement. We will not therefore go into this in detail in this report.

We do however request for attention to be paid to the non-technical aspects within training such as a critical mentality, ethics and morality, which are absolutely essential to the performance of the accountant. We argue for the CEA to include these aspects more emphatically in the final terms of training.

The working group has also established that competition has arisen in recent years between universities which focuses on the length of training and costs. The sector must not promote this, rather it must halt it in the interest of the quality of the training of young accountants. College-free periods in the busiest season may be desirable in the working group's opinion in order to ensure a better ability to study and a focus on study in other periods. The tendency to stop difficult subjects in which reflection and discussion on the subject and dilemmas within the subject are important in short, intensive summer courses is undesirable however in the opinion of the working group and causes us concerns. Without wishing to interfere in free market operation, the working group proposes to guarantee from within the profession that sufficient training time is devoted to all facets of the subject to be absorbed. In the opinion of the working group this must possible without extending the total training time up to achieving the title (including the compulsory placement). We appeal to accountancy organisations to guarantee that no disadvantageous financial consequences (such as the effect of payback schemes) are linked to this amendment.

It is also the opinion of the working group that it is important for the quality of education that the large firms actively contribute to education by making available prominent and experienced people from their audit practices. Both the accountancy firms and the universities have a responsibility to strengthen and stimulate this interaction. During this phase the working group proposes to incorporate this in the quality indicators to be reported annually by the accountancy organisations.

Finally, we see a role for the still to be discussed independent scientific research institute to provide training sessions based on the research findings of input which can provide direction to the content and accent of the training.

Measures to be introduced

- 5.7 When reviewing the education, NBA and CEA must include, next to the exit qualifications in the financial-technical field, the requirements for the non-technical aspects in the education, such as professional skepticism, ethics and morality, which are essential for the performance of the accountant.
- 5.8 Apart from substantial exit qualifications, also binding criteria for the minimum length of trainings and specific subjects should be determined so that there will be enough time to learn the material and to do justice to the complexity of the profession.
- 5.9 The profession must actively contribute to the quality of the education by providing experienced and prominent practitioners.

8.3 Research

WHAT STAKEHOLDERS SAY

“Focus Accountancy Lab on
(.....)

With such an action the accountancy sector can provide a credible signal that it is serious about dealing with the past and perhaps we can regain the world fame of the time of Limpberg.”

Jan Bouwens, professor

“Critical discussion within the profession must be stimulated. Nine out of ten professors are now associated with a Big Four firms. They express very little criticism and in some cases even cover up irregularities due to a misplaced sense of duty. This incestuous situation is undesirable. Accountancy professors must therefore no longer be associated with accountancy firms.”

Geert Koster, VEB (Dutch Shareholders Association)

“Within our system a university programme is provided by practical accountancy professors. They are supported academically in the position by the full time lecturers at the university.

The programme therefore constitutes a mix of professional practice and academic findings. The special, and I would go so far as to say irreplaceable, contribution of these practical professors is that they bring the latest professional practices onto the university curricula. So to ban them does not appear to be the most obvious measure to take. (.....) Nor should we regard practical professors as ordinary lecturers with an independent opinion, as they are not that either. The practical professor is not an independent spirit because he has a foot in two camps. Nor is that his remit. His remit is to teach the latest professional practices.”

Jan Bouwens, professor

There has been a great deal of discussion about the profession, about the potential causes of poor audit quality and about measures to increase quality. Well all is said and done however we know very little about the things which do or do not influence audit quality. Accountancy organisations must therefore carry out more structural research into the root causes of cases in which audit quality is inadequate.

There have also been too many negative examples of the performance of accountants in the news of late. Little is known however of the positive and important role fulfilled by accountants within the system of reporting and governance, for example by identifying gaps in the internal management of

companies and urging them to tighten up internal management, by ensuring the correction of errors in the annual accounts or improvement of notes to the annual accounts before annual accounts are published. In general both negative and positive claims about the work of accountants are anecdotal in nature. The most value is attached to statements concerning the performance of accountants if these are made by parties other than accountants themselves. A significant party in that context is the AFM, as an independent supervisory body. But due to the nature of its role the AFM would be better to focus on pointing out shortcomings in the work of accountants than on the positive contributions of accountants within the system of reporting and governance.

For the reasons outlined here it is important that science adopts a much more intensive role in the development of the profession and the profession in science and education. The profession must make available resources and provide the opportunity for academic research. This research could be detailed research into the root causes of poor audit quality and objective research into the positive effects of the work of accountants via case studies. Academia must also play a role in the further design of the profession in the future, for example via detailed stakeholder analyses and further development of data analysis-based assurance. The quality indicators to be reported by accountancy organisations which are outlined in paragraph 8.1 and the detailed information collated for this purpose, can also be an important source for research into the relationship between these indicators and audit quality. Finally, we see a role for this institute in the development of the profession at an international level, the identification of areas in which international inconsistencies exist in relation to accountancy and the analysis of the effects of this. Studying the effects of regulation or uses which arise in certain countries or sectors can also help in the identification of 'best' or 'bad' practices, from which the sector in the Netherlands can learn.

Resources which must be made available by the firms in addition to funding are research assistants and data in particular. It is also desirable that academia in its turn is more open to practical influences in education and research via practical accountancy professors. It is important that the profession enters into constructive discussion with academia in order to arrive at a good combination of academic underpinning and practical expertise in both education which focuses on the profession (see previous paragraph) and research. It is also important that accountancy organisations ensure that practical accountancy professors and part-time research assistants have sufficient opportunity (including time) to actually make a contribution to practically relevant academic research.

Within the Netherlands there is a limited number of academics who can play a significant role within this research programme. For a successful research programme it will be necessary to attract a number of top international academics, and/or a prominent international university to affiliate to the programme. This is (partly) to lead the programme and to provide independence and acceptance of the results within the Netherlands. In this setting the programme can also serve the development of a number of research assistants and young academics in the Netherlands to the top internationally. The working group is also of the opinion that it may well be possible launch the programme from within the Netherlands, but that an international connection must be established as swiftly as possible so that the relevance and power of the institute is enhanced.

The working group therefore proposes to tender this assignment internationally.

The institute's independence must be guaranteed in the governance of the institute. In doing so the working group is not only thinking of the independence of accountancy organisations and the NBA, but also the independence of other existing institutes and institutions such as universities and supervisory bodies. All of these parties could well have a role within the governance of the institute. The working group should also welcome that, as long as no individual party determines the research aims of the institute.

Measures to be introduced

- 5.10 The accountancy sector takes the initiative to set up an independent scientific research institute. This institute should review the effects of audits, drivers of (insufficient) audit quality (root-cause analysis), the effects of measures taken (internationally) concerning the sector. It should also play a role in the further development of the profession of the future. The initiative must be started from the Netherlands, including a contribution from the Dutch firms to financial means, people (PhD students), data and access to practitioners, such as senior partners and directors. Connection should be sought with international prominent scientists and international organisations from within and outside the sector as soon as possible to create a strong and relevant institute. In 2015, a letter of intent should be drawn to this end between NBA, firms, and universities, and from the Netherlands an international tender process should be started. The sector commits itself to financing the institute and providing the above-mentioned required means. The institute's independence must be guaranteed in the governance.

9. A LEARNING PROFESSION

WHAT STAKEHOLDERS SAY

“More important still is the question of whether stacking up laws and regulations is the right answer to potential abuses. After all, government and citizens have at their disposal powerful and effective enforcement instruments: The supervision of the AFM, the Audit Office and if necessary the FIOD and Public Prosecutor’s Office.

The great benefit of enforcement is that it focuses specifically on problem cases. This is in contrast to laws and regulations, which affect the entire profession. It is demotivating and also socially harmful if those accountants (and their clients!) who are performing properly have to bear the burden of poor quality and the undesirable conduct of others. To this should apply: the polluter pays.”

Huub Wieleman, accountant and chairman of the NBA

“If it is evident that audit quality is still below standard, a fine or disciplinary case will follow, or possibly the withdrawal of a licence. But I don’t take this as read. We maintain intensive supervision, we visit firms, we carry out small investigations. That’s how we observe how much attention is paid to quality improvement.”

Marianne van der Zijde, AFM

“We have not yet encountered any flying colours. There are no overall issues for monitoring and enforcement but we do see overall issues for improvement. Firms also see that for themselves and constant watchfulness is necessary in this.”

Gerben Everts, AFM

“In the meantime it has been made possible for specific reports on firms to be made public. We think that this must now really happen and that the AFM must pick this up. We hope that the minister supervises this actually being put into practice. We think that it is especially important that companies can be named and shamed.

We consider that this would be a great incentive for the improvement of quality.”

Aukje de Vries, VVD (People's Party for Freedom and Democracy)

“If it is evident that there have been genuine abuses, if there has been fraud or attempts to mislead or if quality is not up to standard, I do see a role for a criminal approach and also for supervision, also by the AFM. Let us however guard against over-regulation. (...) This must not become a box-ticking exercise. It must however be about content and quality. Rules can get in the way of that. The CDA sees a significant role reserved for the sector itself in all of this.”

Eddy van Hijum, CDA

“D66 has always been an advocate of a strong role for the AFM in correcting firms which are not performing very well. That’s why last year we, together with the VVD, insisted that the AFM publish more material about the quality of the individual accountancy firms.”

Wouter Koolmees, D’66

“The AFM knows from me that I think it should be more specific and as transparent as possible at an institutional level. I have had discussions of a similar nature with DNB. That is my approach and I think we are in agreement. It is sometimes exciting and scary, as it should be. This is a step in the right direction.”

Jeroen Dijsselbloem, Finance Minister

“It is excellent that the profession will challenge failing accountancy firms in the disciplinary courts. Such measures will remove the rotten apples from the barrel.”

Marcel Pheijffer, professor

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“But it shows that if pressure is brought to bear by the supervisory body, if there is pressure from the public, and internally within the organisation, that accountants can do very well. But without setting the radar controls, without the pressure from outside and conduct changing as a result, it will never happen.”

Gerben Everts, AFM

The profession is much too passive in discussions about its performance. The AFM has a vested interest in profiling its own strict role as supervisory body and in doing so places its own interpretation of current regulations as the standard. As a rule accountants do not dare to contradict but continue to accept the tightened interpretations of the AFM. It would be desirable for these interpretations to be tested in legal proceedings before the courts.”

Peter Wakkie, non-executive director

“Naturally I would like a bold supervisory body which is really on the ball and does not hesitate to intervene. (...) But the question is how far to go in filling the toolboxes of the DNB and AFM. How much power do you want to give them, the knowledge that supervision is subjective and that supervisory bodies are also only human?”

Pieter Couwenbergh, FD

“The strict controls of the AFM are desirable to society. As is naming and shaming in firm-specific reports. In the case of evident abuses, much higher fines must be imposed. Accountancy firms are not afraid of fines of 200k or 50k (EY and Deloitte), also the 900k fine for KPMG in 2011 has evidently not led to a learning experience. The threat of much higher fined will be a (commercial) incentive for accountants to deliver better work. Underperforming colleague will also be brought in line earlier internally.”

Geert Koster, VEB (Dutch Shareholders Association)

“Adaptation of supervision; the establishment of a public prosecutor, speeding up of disciplinary procedures and increasing the scale of penalties.”

TUACC

“In cases such as Imtech we must look closely at the role played in it by the accountant. That should be an automatic requirement. A task to be carried out by the AFM or better still by a public prosecutor for the accountancy profession. Or by an institution similar to the Research Council for Safety.”

Marcel Pheijffer, professor

Strong supervision is important to trust in the accountancy profession and therefore trust in the financial markets. That is also the objective of the AFM and its supervision of accountants.

Stakeholders have a need for specific and reliable information about the measures taken when poor quality is discovered. Only then can stakeholders derive confidence from the supervision of accountants and their quality-promoting effect. In that context the working group considers this a great step forward, with the introduction from this year firm-specific reporting, certainly if the AFM indicates clearly to what actions by the AFM and or the firms the findings have led. Also the fact that disciplinary measures against individual accountants are visible in the accountants' register from this year contributes to transparency towards society regarding the performance of accountants and the consequences of poor performance. This also ensures that it is more possible for stakeholders to select accountants on quality and therefore for accountants to compete on the basis of quality.

The working group is also of the opinion that it is important for society's trust for it to be visible that causes of failures are investigated immediately and that clarity over the measures being taken by the profession to avoid repetition is provided swiftly Thus a publication about the actions of the NBA via disciplinary procedures against accountants who do not fulfil their PE obligations or fall short in terms

of quality provides more confidence than simply the discovery that there are accountants who fall short in this respect. The question of whether supervision and sanctions are the only appropriate route also arises. It is true that penalties serve to remove 'rotten apples' from the barrel, but do not necessarily lead to better insight into the actual causes and an improvement in professional quality. This is reinforced by the fact that proceedings can last a long time and those involved will have no interest whatsoever in openness and information-sharing.

For this reason a number of parties have called for the sector itself to appoint a public prosecutor to provide clarity over the performance of accountants and to ensure that discussions about that performance and the standards which should apply take place publicly, whereby everyone can learn from current cases. Others indicate a comparable situation in aviation in the nineties which led to the abolition of disciplinary law and the foundation of the Dutch Safety Board, with the quest for the truth as its remit. The council was given statutory powers of investigation and indemnification of persons under investigation. This resulted in a reduction in timescales, as a result of which the causes of incidents are discovered earlier and the sector is able to take effective measures more swiftly. Such a mechanism, which contributes greatly to public confidence, is lacking in the accountancy sector. The working group is arguing for both an effective supervisory and enforcement policy and for the acceleration of learning curves and improvement of learning capacity. This function can be partially combined in one organisation. The role fulfilled by a supervisory body is also aimed at the improvement of the sector and the achievement of a change in conduct. The fact that the supervisory body also imposes sanctions however generates a defensive response from the parties under supervision and whose files are being investigated in many cases. The same applies to proceedings instigated by the Accountant's Court. The timescales of (the lead-up) to such proceedings and the potential consequences, such as liability, stand in the way of swift and effective learning.

It is not a foregone conclusion therefore that both functions, enforcement and learning, should be combined fully in one organisation. The indemnification of persons under investigation with a view to optimum sharing of information conflicts with the prosecution and rendering liable of potentially the same parties. This leads to the principal question of which is most appropriate for both functions to the profession and supervisory bodies respectively. The working group is of the opinion that the social benefit of the NBA is considerably enhanced if it adopts a function which is complementary to that of the AFM and which focuses primarily on laws and regulations, clarification, information-sharing, learning and improvement and where possible leaves the supervisory and sanctioning tasks to third party bodies such as the AFM and the Accountant's Court. Thus the NBA continues to operate emphatically in line with its statutory tasks (promotion of quality and defence of the collective interest) and positions itself as more recognisable to its members and to society.

A function such as the public prosecutor or research council which is fulfilled from within the NBA may be worthwhile for the swift and effective learning within the sector. This however creates a risk that the NBA encroaches too much on the duties of the AFM which will lead to a lack of clarity about their individual roles and/or their roles conflicting with each other. For that reason the working group proposes to create a mechanism whereby that role is not included within the NBA, but rather that the NBA regulates the mechanism within which files and cases are shared on an anonymous basis with the independent academic institute (see measure 5.10). This institute then investigates the root-causes of poor audit quality on the basis of these case studies. Experience in other sectors shows that crucial to the effect of this function which focuses on learning and improvement is that accountants and organisations which cooperate are indemnified from sanctions and that anonymisation of findings and recommendations is guaranteed. In contrast to this there should be an obligation to cooperate in full with the investigation.

Naturally, sanctions must also be utilised, but in our proposal that takes place by existing authorities such as the AFM and the Accountant's Court on the basis of information acquired by these authorities themselves, which is no different to the current situation.

The role of the NBA will consist of the translation of the findings of the scientific research institute, Accountant's Court proceedings, peer reviews and AFM research into public interpretation, any amendment of professional standards and education. In doing so the NBA specifically discharges its legal duty, i.e. quality improvement and defence of the collective professional interest.

Measures to be researched further

- **6.1** The NBA reviews the implementation of a mechanism that is specifically aimed at learning from failures made by auditors, which is similar to the mechanism currently used by the Dutch Safety Board. The NBA obliges auditors to cooperate with the review of files and indemnifies them against any enforcement measure or legal proceedings by the NBA or its related bodies. Files that are selected for review will be handed over to the independent scientific research institute which performs root-cause analyses based on these files. A condition for the implementation of this mechanism is that confidentiality is maintained where it concerns information of individual files, accountants and findings. The lessons learned from this will be reported on the basis of anonymity.
- **6.2** The NBA takes care of the systematic translation of the findings of the AFM, the Accountant's Court College for Peer Review, research institute and other sources for the public good, amendment of the professional standards and education. In doing so it specifically fulfills its legal duty, i.e. quality improvement and advocacy of the collective professional interest.
- **6.3** The NBA organises a two-yearly compulsory Permanent Education (PE) training session, which deals in detail with what the profession can and must learn from the findings of the AFM, the Accountant's Court, College for Peer Review, research institute and other parties. Accountancy organisations research if there are sufficient guarantees within their organisation to avoid such cases and the board of directors and compliance officer establish in conjunction with the supervisory board if and which measures are required relating to the lessons learned from the public procedures.

10. SUCCESS FACTORS

The auditor is one link in the total system of corporate governance. An effective governance system is a significant success factor in the effectiveness of the proposed measures and for the audit in general. The auditor can fulfil his role properly and safeguards can be better integrated if all of the other players in the system also fulfil their role properly.

Gaps elsewhere in the system will also weaken the effectiveness of the audit. What this means is the quality of audit files in some cases is a reflection of the quality of the company being audited. It is therefore important that the performance of the board of directors, supervisory board, shareholders and supervisory bodies within the system is also examined. Internal accountants and accountants in business form part of this. Our report focuses primarily on amendments to the role of the auditor and we did not want to lay the ball at the feet of others. This makes the proposed solutions vulnerable because in practice the auditor is often blamed for what goes wrong in the other links in the system. It is therefore necessary in our opinion for more clarity to be provided in respect of the role of others and additional safeguards incorporated where necessary. A number of measures also affects other parties. Without hiding behind each other and without doing something about the fact that in the working group's opinion the aforementioned measures will have to be taken by the profession itself, we nominate below a number of other areas in which we see a need for measures and/or changes to enable the measures proposed in the previous chapters and to allow them to work effectively.

The board of directors and supervisory board of the company

The board of directors and supervisory board (or other supervisory body) are responsible for the company's corporate governance structure and are accountable to the general meeting for this. In doing so the board of directors is also responsible for strategy, with its associated risk profile, the achievement of objectives, compliance with all relevant laws and regulations, the management of risks associated with the company's activities and the financing of the organisation. The supervisory board supervises the board of directors.

Both board of directors and supervisory board fulfil an important role within the system of corporate governance which influences the quality of the audit. In this document we also propose a number of measures for which in the opinion of the working group not only the auditor but also the authorised bodies within the organisation being audited should be responsible. If this obligation rests not only with the accountant but also with the relevant bodies of the organisation, this provides clarity to stakeholders and an extra safeguard within the corporate governance system. Specifically we see the following issues which must be amended in laws and regulations where the role of the board of directors and supervisory board is concerned (who we expect to come from is stated in brackets):

- **7.1** Further clarification of the role of shareholders and the supervisory board on the appointment of and communication with the auditor within the Code Corporate Governance. This clarification concerns the responsibility of the supervisory board for selecting the auditor, the agreement of the remuneration, and the direct communication with the auditor regarding his findings, in which the supervisory board (audit committee) should not only discharge its formal function, but also act as the physical body that maintains the relationship with the auditor. For this purpose, the V.2 principle will be developed into a number of best practices, which explicitly place the primary role and responsibility for these matters with the supervisory board.

- 7.2 Incorporation of a best practice provision into the Code Corporate Governance that the supervisory board must also clearly say at the general meeting, in which a vote is cast on the appointment of the auditor following a proposal process, on the basis of which the auditor is proposed. During this, the assessment of the auditor is in any case discussed in detail regarding a number of aspects of quality (such as AFM findings) and the remuneration compared to the other firms that have been invited to present a proposal.
- 7.3 Broadening of the compulsory provision of information by the supervisory board insofar as it concerns the assignment of, and findings of, the auditor, in the annual report.

Reporting requirements

The primary role of the accountant is to provide an opinion on the true picture of accounting information provided by a company/company management to its relevant stakeholders, in many cases the annual accounts. In doing so the accountant carries out an assessment against laws and regulations and generally accepted standards in the area of (financial) reporting. The working group discovered two issues in this context. Firstly, stakeholders require more information about certain aspects, such as continuity, risks and internal management, but this is not obvious and in the opinion of the working group it is even undesirable that this information is provided primarily by the accountant wordt. If this requirement exists, then this should firstly be resolved by amending laws and regulations in such a way that the management of an organisation is accountable for such aspects. The accountant can then provide an opinion on that information if stakeholders require it. Secondly, we see that in a number of cases, discussions on the role of accountants are more about the question of whether stakeholders think the underlying reporting regulations are logical, acceptable or detailed enough. This is the case where in specific sectors, divergent regulations apply, such as within a number of (semi-) public sectors. In the working group's opinion, recognisable and high quality reporting regulations which are based on consistent principles and applied in all sectors, benefit clarity for stakeholders and increase the value of the accountant's opinion when accounting takes place on the basis of those reporting regulations. Sector-specific additions and interpretations are good, but sector-specific exceptions and deviations are not. For that reason the working group proposes the following:

- 7.4 Alignment of legislation and regulations in the field of annual reporting, which meets the users' needs. For example, extension of the information to be included by the management on strategy, continuity risks and other risks that are essential for a broader and more relevant insight into the profile and the performance of the company, and of information to be included by the supervisory board on the assignment to, and findings of, the auditor, comparable to the model that is used in the United Kingdom. Also see measure 4.3.
- 7.5 Amendment of the sector specific reporting regulations in line with the regular reporting regulations that are generally acceptable and generally recognised. This can include reporting regulations that apply to the public sector.

Supervision

As stated in the previous chapter, strong supervision and transparency over findings and consequences is important for trust in the audit. The sanctioning of poor performance by auditors forms part of this. The profession must also learn from things which go wrong and to ensure that those things are improved as swiftly as possible.

Clarity over findings and consequences is crucial in the working group's opinion, both for society's trust and the sector's opportunity to learn from findings. In that context we propose the following measure:

- **7.6** Classification of findings by the AFM from supervision on auditors, and motivation by the AFM for taking action or not as a result of these findings. We recommend that the AFM indicates and motivates if and why findings have led to the imposition of a fine or not, and if so, the sum of the fine, bringing proceedings against the auditor concerned, and the withdrawal of a licence of the accountancy organisation or not, as well as the improvement actions that have been agreed with the accountancy organisation as a result of the findings.

Audit limits and Public Interest Body definition

As stated in chapter 7 the working group is of the opinion that it would be desirable to increase audit limits, to enable other forms of assurance for smaller companies and to extend the number of organisations covered by the PIE. The profession cannot implement this itself and initiative by the legislature is necessary for research into these amendments and their implementation. We therefore see a need for the following actions by the legislature:

- **7.7** Adjustment of the audit limits and extension of the definition of PIE (classification of specific types of organisations which will fall under the scope) on the basis of the results of the research to be done.

Training and research

In the report we discuss a number of measures which aim to contribute from within the profession to education and research which focuses on the profession. The profession must actively contribute to this and invest in it. A significant role is naturally set aside for the universities and colleges. It is important that they play an active role in enabling the implementation of changes in education, relevant academic research and practical influence. The enabling and appreciation of more practical and professional training-focused appointments should also be part of this, including research and associated publications which are relevant in practice.

- **7.8** The implementation of the necessary changes in the accountancy education programme, and Dutch universities and colleges in the field of research and education making a stronger connection with accountancy practice.

11. IMPLEMENTATION

The working group is of the opinion that the proposed measures will strengthen the profession and that they are achievable, even in the international environment. The working group is of the opinion that the proposed measures which are included in the chapters Structure and governance, and Remuneration and earnings, must be implemented within one year.

For the remaining measures the parties concerned must include a time line which focuses on the swiftest possible, high quality implementation of the measures. We propose first of all to incorporate the measures in a covenant which also includes the timing for implementation, to be signed by the firms which support them and the NBA before the end of 2014. In this way the measures can be implemented quickly by the most relevant group of accountancy organisations.

Accountancy organisations must render account for the implementation of the measures included in the agreement in the transparency report or annual report. As soon as the supervisory board is established in the relevant organisations, the supervisory board must govern the timely and correct implementation of those measures.

The working group recommends that these proposals are also and subsequently incorporated in NBA laws and regulations (including approval by the members' meeting) whereby they also become applicable to accountancy organisations which have not yet explicitly committed to the covenant, but to whom the provisions are indeed intended to apply.

- 8.1 Accountancy organisations must account for the implementation of the measures included in a letter of intent following this report in their transparency report or annual report. As soon as the supervisory board is established in the relevant organisations, the supervisory board must govern the timely and correct implementation of those measures.

12. MONITORING AND EVALUATION

The working group proposes to monitor constantly the consequences of these measures and to appoint an independent monitoring committee for this purpose. The aim of this committee is to ensure the continued improvement of the sector and the tightening of measures where necessary. The improvement of the quality of the audit does not end with this report and the implementation of the measures described in this report. The profession must actively and continually strive towards this.

The majority of the monitoring commission must consist of persons who are not connected to any accountancy organisation. As part of the monitoring an annual public meeting will be organised with representatives of accountants, investors, non-executive directors, companies and other stakeholders. In doing so they will evaluate the development of the profession in the light of development of the environment and draw conclusions on which aspects accountants are fulfilling their roles properly and which aspects of their role requires amendment. The committee will report its findings on the implementation of the newly proposed measures by the NBA, and the firms and any other proposed additions and amendments which are identified during this monitoring and stakeholder dialogue.

The working group is also of the opinion that the commitment of the profession to the measures described in this report goes hand in hand with external supervision of their implementation. The working group has therefore also assumed that the AFM will be involved in the introduction of these measures by the public supervision undertaken by the AFM. The annually reported quality indicators may also be a good source for the evaluation of the effects of the implementation of the measures.

- 9.1 An independent monitoring committee will be formed to evaluate the implementation and operation of the measures referred to in this report, and it will propose additions and changes in cases where the findings give rise thereto as a result of the monitoring. The majority of the monitoring committee must consist of persons who are not connected to any accountancy organisation.
- 9.2 The AFM will govern the implementation of the measures described in this report within the accountancy organisations and the Dutch top holding of the group which the relevant accountancy organisation is part of.

APPENDIX 1 – STAKEHOLDER DIALOGUE

During and for the purpose of the process which has led to the creation of this report and the measures included therein, we spoke to the following people.

Stakeholders	People
Debates with broad stakeholder groups	<ul style="list-style-type: none"> • Digital debate 1 July (177 participants) • National Opinion leaders debate Amsterdam 3 July (141 participants) • Regional debate Den Bosch 14 July (75 participants) • Regional debate Zwolle 16 July (72 participants)
Investors	<ul style="list-style-type: none"> • Rients Abma (Eumedion, 2 interviews) • Wouter Kuijpers (Eumedion) • Geert Koster, VEB (Dutch Shareholders Association)
Governance Committee,, risk & compliance	<ul style="list-style-type: none"> • André Hooyman, Anneke van Zanen, Carin Gorter, Goos Minderman, Jan Buné, Jan Nooitgedagt, Simone Heidema, Tjalling Tiemstra, Tom van Wijn-gaarden, Wouter Kuijpers
Academics	<ul style="list-style-type: none"> • Marcel Pheijffer (2 interviews) • Mijntje Lückerath • Leen Paape • Olof Bik • Erik van der Loo
Non-executive directors	<ul style="list-style-type: none"> • Peter Wakkie • Charlotte Insinger • Mijntje Lückerath (see also under academics)
Directors / Commercial sector	<ul style="list-style-type: none"> • Jos Nijhuis (Schiphol Group) • Martin Noordzij, Jeroen Lammers (VNO-NCW)
Internal and governmental accountants	<ul style="list-style-type: none"> • Ingrid Doerga (NBA internal and government accountants members group) • Vincent Moolenaar (Institute of Internal Auditors) • John Bendermacher (Institute of Internal Auditors)
Accountants in business	<ul style="list-style-type: none"> • Roderik Meeder (NBA accountants in business members group)
Court of Audit	<ul style="list-style-type: none"> • Kees Vendrik, Ellen van Schoten
Supervisory Bodies	<ul style="list-style-type: none"> • Nic van der Ende (DNB) • Merel van Vroonhoven (AFM) • Gerben Everts (AFM, 2 interviews) • Marianne van der Zijde (AFM, 2 interviews) • Janine van Diggelen (AFM, IFIAR)
Ministers and politicians	<ul style="list-style-type: none"> • Jeroen Dijsselbloem, Finance Minister • Gita Salden (Ministry of Finance, 2 interviews) • Sander Verbaan (Ministry of Finance, 2 interviews) • Henk Nijboer, PvdA • Aukje de Vries, VVD (People's Party for Freedom and Democracy)

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Public accountants	<ul style="list-style-type: none"> • NBA management (Huub Wieleman, Dirk ter Harmsel, Jochem Beekhuizen, Marc Eggermont, Sietze Groustra, Jaap Hetebrij, Jos van Huut, Viviana Kooistra-Voorwald, Gabriël van de Luitgaarden, Paul Scholte, Erica Steenwijk, Karin van Wijngaarden) • NBA executive directors (Anne-Marika van Arkel, Berry Wammes) • NBA management public accountants members group (Dirk ter Harmsel, Marco Moling, Jan-Gijsbert Bakker, Peter Jongerius, Joris Joppe, Bert Willems) • NBA Young profs (Tom Ooms, Arthur van Bommel, Bas Herrijgers, Marisa Noronha, Roy Gorter) • OPAK (Frank Koster, Ronald Hoeksel, Jouke Jelgerhuis Swildens, Els van Splunter, Jeroen Kamphuis, Marcel Baks, Marcel Welsink, Erik van der Haar, Wilfred Castricum, Cees Meijer, Paul Dinkgreve) • NOVAK Guus Ham • NEMACC and representatives of SME's (Paul Mariën, Peter Paul Cornielje, Paul Drinkgreve, Jan Zweekhorst, John Weerdenburg, Guus Ham, Ron Weijmans, Jan Wietsma, Henk Volberda, Kevin Heij, Dirk ter Harmsel, Jochem Beekhuizen, Antoinette Rijsenbilt, Bibi van den Bragt)
Public Interest Committee Chair persons	<ul style="list-style-type: none"> • Arnoud Aikema, Floris Deckers, Steven van Eijck, Peter van der Zanden, Mariette Doornekamp, Jan Hommen, Nout Wellink
Dutch Association of Tax Advisors	<ul style="list-style-type: none"> • Marnix van Rij, Wim Gohres

APPENDIX 2 – EXAMPLES OF QUALITY INDICATORS

Input – general team composition

- Number and ratio of partners/directors, (senior) managers and other team members
- Average number of years' experiences, split into partners/directors, (senior) managers and other team members
- Turnover rate partners/directors, (senior) managers and other team members split into 'key talents'/'high potentials' and others
- Number and percentage of hours partners/directors, (senior) managers and other team members spent on: audit assignments (split into Public Interest Entity and non-Public Interest Entity), other assignments, internal duties
- Number of overtime hours and percentage in relation to total number of contractually available hours

Input – Training and coaching

- Average number of hours training and education per employee (internal and external training)
- Average investment (euro's cash out) in training and education per employee
- Number of internal hours spent on the preparation and provision of training
- Average ratio of hours partner/director, (senior) managers and other team members (leverage), separately for PIE audit assignments and non-PIE audit assignments
- Number and percentage of assignments for which the aforementioned ratio is less than the internally-established standard
- Results of employee satisfaction surveys in aspects related to coaching and audit quality

Input – quality measures

- The number and percentage of audit hours per phase of the audit process carried out before the end of the financial year and after the end of the financial year
- Number of FTE's partners/directors, (senior) managers and other team members active within the Professional Expertise, Compliance and Independence functions
- Number of consultations in the technical department in the areas of reporting and audit
- Number of annual accounts reviews carried out by experts outside the regular audit team (for example technical expertise) for the issue of the opinion (including annual accounts reviews as part of EQR)
- Number of EQR's carried out, total number and percentage of total number of statutory audits
- Number of hours spent by partners/directors, (senior) managers and other team members on EQR's, total number and average number per EQR
- Average number of hours spent on EQR as a percentage of the total number of hours spent on the audit of assignments where an EQR has been carried out
- Number/percentage of hours IT specialists on audit assignments, separately for PIE and non-PIE
- Number and percentage of assignments for which the aforementioned percentage is less than the internally-established standard
- Number/percentage of other hours (to be defined) of specialists on audit assignments
- Number of hours spent on roles aimed at professional development (NBA, university, articles etc), total number and as a percentage of total available hours

Results

- Total number of audit opinions issued within the framework of statutory audits (split into PIE and other)
- Number of internally reported or established infringements of independence regulations, total and as a percentage of the total number of employees
- Number of internal warnings for infringements of independence regulations, total and as a percentage of the total number of employees
- Number of files subjected to retrospective quality review (other than EQR) and the summarised conclusions (classification of findings). The transparency report must also state what actions (improvement actions, penalties) have been undertaken as a result of the findings.
- Number of files subjected to quality review by a supervisory body and the conclusions (classification of findings)
- Conclusions of the accountancy organisation based on additional review carried out on files as a result of the supervisory body's findings
- Number and amount of fines received from the supervisory body
- Number of unsubscribed partners in association with quality issues, total and as a percentage of the total number of partners
- Number of corrected fundamental errors (NL GAAP) or material errors (IFRS) in companies in which the organisation was also the accountant in the previous year, total and percentage of number of audit opinions issued.
- Number of corrected material errors in audited companies based on indications by supervisory body, total and percentage of number of audit opinions issued.
- Number and percentage of returned assignments accompanied by the reason.
- Number of claims received and settlement (reached court, ruled, rejected, settled)
- Number of incidents reported to supervisory body.
- Number of Accountant's Court proceedings and outcomes
- Number of complaints and results of claims procedures

APPENDIX 3 – SUMMARY OF MEASURES

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No.	Measure
1.1	The profession is introducing a professional oath for accountants. The oath will be taken at the time of registration in the accountants' register.
1.2	Quality and professional skepticism must be prominently incorporated and clearly substantiated in the VGBA (Code of Ethics for Professional accountants, regulation with respect to Rules of Professional Conduct).
1.3	When projecting the profile of an accountant to students and the job market, the profession emphasises exactly those values, norms and qualities of an accountant that need to be concentrated on to create the desired culture within accountancy organisations: focus on quality, professional skepticism, accuracy, soundness, head up high, social responsibility.
1.4	PIE-firms periodically assess the mindset and drivers of the partner group, other managers and employees. The supervisory board will be informed of the results of these assessment and the actions intended to be taken on this basis. The supervisory board must approve the management decision on the actions to be taken. The management and the supervisory board will consider the results of the assessment of individual persons in their decision-making (approval) on partner appointments.
2.1	A supervisory board will be established in the Dutch top holding of each group that an accountancy organisation with an PIE-licence is part of.
2.2	The provisions of principles III.1, III.2 and III.3 of the Dutch Code of Corporate Governance (CCG) apply to the composition (including independence) and working method of the supervisory board, These provisions will be included in a NBA regulation to ensure that these provisions fall within the scope of the supervision of the AFM. The composition of the supervisory board is such that the members can act independently and critically. Apart from the expertise listed by the CCG, the supervisory board contains expertise in respect of quality policy and the public interest. In line with the CCG, all supervisory directors, with the exception one person at most, are independent and thus external members. The chairman of the supervisory board is always an external member and independent. The selection of the members of the supervisory board takes place on the basis of a profile (see CCG provision of principle III.3) containing the fields of expertise defined. The appointment takes place on the basis of a binding nomination by the supervisory board, which can only be deviated from with a qualified majority. The same applies to suspension and dismissal. The supervisory board will be a diverse composition. The composition aims at a minimum of 30% of women (and at least 30% of men). Before the nomination of a (n) (aimed) supervisory director can take place, a suitability assessment should be carried out by the AFM.
2.3	The task and the mandate of the supervisory board will be clearly described. The supervisory board will in any case focus on organisation-wide aspects that affect audit quality, independence, integrity and on the interests of external stakeholders during the audit. The supervisory board will make a binding nomination for members of the board of the Dutch top holding, which can only be deviated from with a qualified majority. The supervisory board is also responsible for the approval of the appointment or dismissal of partners within the audit practice, approval of the quality policy and the guarantee thereof. Also, the supervisory board approves the remuneration policy for directors, partners and employees, and it determines the remuneration of the directors of the Dutch top holding. The supervisory board approves the appointment and assessment of the compliance officer. Without jeopardizing the management's responsibility for the adequate compliance of the organisation, the compliance officer must have a direct reporting line to the supervisory board. Annually a meeting will be held between the supervisory board and the AFM without the presence of the directors. The content of this meeting is aimed at the accountancy organisation.
2.4	In line with CCG provision of principle III.1, the supervisory board governs the interest of the entire organisation, those parties involved in the organisation, and it involves the relevant social aspects of operating a business, including audit quality and independence. At the same time it ensures that the effects of conflicting interests (both at a business and a personal level) within the organisation are sufficiently restricted.
2.5	If required, the supervisory board has key committees in line with the CCG. The members of the remuneration committee are all independent. Ensuring the public interest is an essential part of the supervisory board's duty as a whole. The function of the existing Public Interest Committee will be integrated into the supervisory board.
2.6	The supervisory board incorporates a comprehensive report into the annual report of the Dutch top holding and into the transparency report of the accountancy organisation. It presents how the supervisory board has fulfilled its role regarding each of the tasks and responsibilities assigned to it, which procedures have been followed, and it presents the key substantive findings, discussions and decisions of the supervisory board.

Impact on	Introduction of initiative	Term
All accountants	NBA (laws and regulations)	short term
All accountants	NBA (laws and regulations)	short term
All accountants	Firms, NBA	short term
PIE-firms	Firms	short term
PIE-firms	Firms	short term
PIE-firms	Firms, NBA (laws and regulations)	short term
PIE-firms	Firms	short term
PIE-firms	Firms, NBA (laws and regulations)	short term
PIE-firms	Firms, NBA (laws and regulations)	short term
PIE-firms	Firms (possibly legislature)	short term

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No.	Measure
2.7	The board of directors of the organisation must be composed in a sufficiently diverse way, with due regard for the interests of external stakeholders. The supervisory board will see to this when appointing the directors of the Dutch top holding. The appointment of people from outside may help in certain cases, but is not necessary. Directors shall be selected on the basis of one of the profiles drafted by the supervisory board containing the defined fields of expertise, and after a suitability assessment has been conducted by the AFM.
2.8	The management must be able to maintain sufficient distance from the partnership and should spend enough time on managing the organisation. The member of the board that is principally responsible for the quality policy must primarily focus on this task. The supervisory board formulates the starting-points of the time to be spent by the directors on board's duties and other responsibilities, and supervises the compliance thereof. It is possible for a director to have a limited audit portfolio, however only with the consent of the supervisory board.
3.1	All accountancy organisations must demonstrably have an internal remuneration system, in which the remuneration of quality, including coaching and supervision, come first. The key element of the (variable) remuneration of the individual employees working in the audit practice and the remuneration or allocation formula on the basis of which the profit is distributed for audit partners is determined by role, responsibility and the audit quality delivered, including the quality of the supervision and coaching of team members and results of file reviews. Quality must both have positive and negative consequences for the remuneration or allocation formula in the system. The remuneration policy, including the criteria on the basis of which the profit is divided between the audit partners, the investment policy for individual partners in private, and the individual remunerations of the directors of the accountancy organisation is published in the annual report, transparency report or on the website of the accountancy organisation.
3.2	Technical knowledge, professional skepticism and quality of the work should be the crucial elements within the promotion policy for employees of the audit practice in the organisation, including the criteria for the appointment of partners. This should for example be implemented by means of a curriculum that someone should have completed before he is considered for partner appointment. Demonstrable work experience (with a positive assessment) within a function aimed at quality or professional development (i.e. technical or compliance department) during a relevant period and a representative number of file reviews with a positive assessment are part thereof. For the partner appointment within the PIE audit practice of an accountancy organisation and before somebody can function as a partner in a PIE, there must be at least an equivalent of 12 months' experience within a function which focuses on quality or professional development with good scores and at least three file reviews with good scores in the last five years before appointment. With PIE's, the supervisory board tests explicitly in any case (but not exclusively) for the above-mentioned aspects when approving partner appointments. For the careful and operational feasible implementation of this measure, the working group deems a transitional regime necessary. It will be possible for a maximum period of three years to appoint a person who does not yet meet the criteria for experience within a function which focuses on quality or professional development, subject to the condition that he will gain the required experience after appointment within five years.
3.3	The provisions of principle II.2 and III.7 of the CCG regarding the remuneration of directors or supervisory directors are taken over in a NBA regulation to ensure that these provisions fall within the scope of the supervision of the AFM. The remuneration of the members of the supervisory board is annually determined and is independent of the results of the organisation. The remuneration is determined at a level that is appropriate to the responsibility of the non-executive directors and time required for good performance of the task. Directors of the Dutch top holding of a PIE accountancy organisation must receive a remuneration that is determined by the supervisory board and is not directly related to the profitability of the organisation in the relevant year. This remuneration consists of a fixed amount that is determined by the supervisory board at the start of a year in accordance with the remuneration policy plus a variable amount of maximum 20%. The variable element of the remuneration of the directors of the Dutch top holding must be based on achievement of the long-term objectives set by the supervisory board, which suit the social function of the organisation (including audit quality) and the specific responsibility herein of the relevant director. The management of the top holding ensures that the remuneration of the policy makers of the PIE-licence holder fits within the set objectives and the policy described under 3.1.

Impact on	Introduction of initiative	Term
PIE-firms	Firms	short term
PIE-firms	Firms	short term
All licence holders	Firms, NBA (laws and regulations)	short term
All licence holders	Firms	short term
PIE-firms	Firms, NBA (laws and regulations)	short term

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No.	Measure
3.4	For the other audit partners, the remuneration or allocation formula, which the profit distribution of the partner is based on, must consist of one component that is based on role and responsibility and one variable component. The last component is mostly based on criteria related to quality, including results from file reviews, the results of employee satisfaction measurements and individual assessments by team members in respect of the guidance given by the partner. Within the remuneration or allocation formula, it is possible to remunerate on the basis of other objectives. However, no weight is given to a more than average performance in the area of commercial objectives if the audit partner has scored poorly on the aspect of audit quality. Deductions from the remuneration of individual audit partners due to insufficient scores on the quality delivered are not destined for payment to the other partners, but will in consultation with the supervisory board be spent on specific measures focussed on quality improvement. The working group is of the opinion that quality is also a collective responsibility. However, quality problems within an office cannot have a positive effect on the remuneration of any individual within the organisation.
3.5	PIE accountancy organisations conduct a claw-back scheme with a term of 6 years (the maximum term to start procedures at the Accountant's Court), where the public accountant deposits an amount at once or accrues it in 6 years' time through reservation from profit entitlement. The amount covered by this scheme will accrue in six years' time to one average annual income earned over the most recent period of 6 years. Where, before the expiry of that period, it appears that an imputable act of the accountant has led to the issuance of a false declaration, which resulted in social damage, the amount that is covered by this scheme will not be paid out, but the accountant will lose his entitlement to profit fully or partially. The sum of the amount to be deducted from the reserved profit entitlement or deposited capital is due for final assessment by the supervisory board and dependent on the significance of the shortcoming and the social harm as a result. This measure holds not only for the signing partner, but, where appropriate, the role of the partner who is responsible for engagement quality control reviews for this assignment and other team members, should also be assessed. Deductions made in accordance with the claw-back scheme are not destined for payment to the other partners, but will, in consultation with the supervisory board, be spent on specific measures focussed on quality improvement.
3.6	Accountancy organisations conduct an investment policy for partners in private which defines the restrictions that partners have to observe. The investment policy must be approved by the supervisory board.
3.7	The sector starts a process that is aimed at the gradual phasing out of the model in which new partners must invest capital in order to acquire a share in the organisation ('the goodwill model') within a reasonable term and with an appropriate transitional scheme.
3.8	The sector investigates the introduction of a pension scheme for the profession which PIE accountancy organisations will obligatory participate in and other partners can voluntarily participate in. The working group has the impression that the introduction of a pension scheme is recommendable, however, the consequences in respect of independence among other things must first be investigated.
4.1	The auditor may only accept an audit assignment or request to submit a proposal for an audit assignment if he has directly received it from the general meeting (or a similar body) or from the supervisory body (supervisory board, or a similar body), if he presents the proposal to this body, if his fee is agreed with this body and if he reports to this body. Thus, the auditor will not accept a situation in which the management de facto selects and appoints the auditor, unless the director and the shareholder are the same person and there is no supervisory body present. If the shareholders and the supervisory body default, the (intended) auditor should advise the management to address the NBA for the appointment of another auditor.
4.2	The auditor will address the audit opinion to the shareholders and creditors, and in specific cases to other interested parties specifically appointed, of the legal entity.
4.3	The auditor will issue a separate opinion with the annual report (as referred to in Section 2:391 of the Dutch Civil Code). In this opinion to the annual report, the auditor will explicitly give his opinion on the risk section, continuity analysis and corporate governance information as it is incorporated in that annual report. If required, the auditor will make a supplementary reflection on these topics. The NBA will issue further regulation on work to be carried out in the context of this review report. It is being researched if, considering the other degree of security that is provided, this explicit opinion may be incorporated in the annual report as a separate part of the audit opinion. Note: The requirements for the annual report have to be changed for the proper functioning of this measure, also see chapter 10.

Impact on	Introduction of initiative	Term
PIE-firms	Firms	short term
PIE-firms	Firms	short term
PIE-firms	Firms	short term
All licence holders	Firms, NBA	medium term
PIE-firms (all)	Firms, NBA	medium term
All licence holders	NBA, legislature	short term
All licence holders	NBA	medium term
All licence holders	NBA (laws and regulations), legislature	medium term

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No.	Measure
4.4	The auditor explicitly reports to the supervisory board (or similar supervisory body) on fraud risks under ISA 240 and the possible material impact on the annual accounts that he acknowledges, coordinates the audit programme that he conducts in view of those risks with the supervisory board, and specifically reports on the work performed by him. The deployment of data analysis must be part of the audit plan that is aimed at covering fraud risks. The NBA will issue further regulation or guidance on the work to be performed and coordination with and reporting to the supervisory board in view of fraud. If a fraud case arises, the supervisory board as well as the auditor will report it to the general meeting (or similar body) insofar as it is related to fraud risks acknowledged by the supervisory board and auditor, and on the evaluation of the supervisory board, and auditor on the auditing work performed relating to these fraud risks.
4.5	The auditor will issue a comprehensive audit opinion for all PIE's and other institutes to be specified by the NBA. In this, he provides more information on the key audit matters, the audit methodology and work performed and materiality maintained. He reports on the continuity risks reported by the company in the opinion to the annual report. Also, the auditor actively speaks at the AGM (or similar meeting) to outline his work. This will be coordinated by the auditor with the supervisory board (or similar body) beforehand. If he is not given permission to do so, he should not accept the assignment.
4.6	The auditor must allow the supervisory board and board of directors (or similar bodies) at all times to provide information on the content of the management letter in the annual report or during the general meeting. In such case, the auditor will ensure that this information is correct and balanced.
4.7	Given the current statutory obligation of confidentiality, the profession and stakeholders are researching to what extent it is recommendable and possible that the auditor pro-actively reports the contents of in his management letter (or board report). This also applies to the corrections made at the instigation of the auditor and whether in more cases than now an obligation to speak should apply to the auditor. Until research is completed, the auditor will make clear that if shareholders believe that the management or the supervisory board must report more actively or more comprehensively, they should solve this within their own governance with the means they have available.
4.8	The profession (NBA) actively contributes to research into the possibility of raising the limits of the statutory compulsory audit and, as such, to challenge the accountant to continue to prove his relevance for stakeholders. As part of this, the profession is researching the advisability to make other forms of security possible for a certain group of companies.
4.9	The profession (NBA) is, in consultation with the Ministry, researching whether is it advisable to classify more institutes as PIE and to apply the already existing regulation and part of the proposals incorporated in this report to a larger group of accountancy organisations and audits. For instance, organisations that are financed from public means such as (semi-)public institutes, but also certain non-listed companies, which as a result of their size, objective or structure, are characterized by a larger group of stakeholders. The working group is of the opinion that the definition of PIE's should in any case be extended to housing associations, care and educational institutes, provinces and municipalities of a size to be further defined.
5.1	Accountancy organisations must report on a set of quality indicators, including indicators in the field of leverage and coaching, in the transparency report or annual report, the internal objective or norm for the indicator concerned, the actual result over the past year, and the actions to be taken if the result differs negatively from the objective or the norm. The indicators proposed by the working group are set out in Appendix 2 to this report. The indicators to be reported in 2015 and 2016 must be definitely established by the end of 2014 by the NBA and are periodically adjusted on the basis of results from scientific research and dialogue with stakeholders.
5.2	The auditor reports to the supervisory board (or other supervisory body) of the legal entity audited how many partner/director and team hours he is expecting to spend (estimate) and how many were actually spent (subsequent calculation) on the audit. The auditor substantiates how the deployment of these hours, in combination with other audit methodologies, leads to a high-quality audit.
5.3	Engagement quality control reviews (EQR) are to be performed by an EQR team with senior team members under the direction of an experienced partner (or experienced partner from outside the organisation). The members of the EQR team are permanently, for a precise time period, or for a substantial part of their time available to perform the EQR's. Several files of a control partner must be covered by an EQR each year.

Impact on	Introduction of initiative	Term
All licence holders	NBA (laws and regulations)	medium term
PIE-firms	NBA (laws and regulations)	short term
PIE-firms	Firms	short term
PIE-firms	NBA	medium term
All licence holders	NBA, legislature	medium term
All licence holders	NBA, legislature	medium term
All licence holders	Firms, NBA	short term
All licence holders	Firms	short term
All licence holders	Firms, NBA (laws and regulations)	short term

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No.	Measure
5.4	The role and responsibility of the EQR team and the person who directs the EQR, including the scope of the review, must be clearly arranged in the Regulation on Accountancy Organisations, however, without prescribing the work to be performed in detail. The aim should be to connect with international developments in this area.
5.5	In the event that it is determined that audit files and work of an audit partner do not meet the quality requirements, an improvement plan must be drafted by this audit partner, in addition to the effect on the remuneration described in chapter 6, in conjunction with the compliance offers and a board director who is responsible for quality. This improvement plan must be worked on during a period of two years, and the number of EQR's of this partner must be significantly intensified. An evaluation must take place after two years on the development and quality in that period and it must be decided if the audit partner can continue having authority to sign within the accountancy organisation. For this purpose, a motivated decision is to be submitted for approval to the supervisory board.
5.6	Introduction of an audit standard which contains provisions in the event of a change of auditor, that render both the new and former auditor responsible for the full transfer of all information, including the transfer of information on the start of the proposal process in cases where the current auditor is not invited to the proposal process (for example for PIE rotations). If the audit for any year is called into question by the supervisors or otherwise (i.e. in proceedings at the Accountant's Court), the performance of the transfer by the auditor leaving must also be investigated and it should be determined whether he failed to transfer relevant information in conflict with the new audit standard, to the new auditor in respect of the current topic.
5.7	When reviewing the education, NBA and CEA must include, next to the exit qualifications in the financial-technical field, the requirements for the non-technical aspects in the education, such as a professional skepticism, ethics and morality, which are essential for the performance of the accountant.
5.8	Apart from substantial exit qualifications, also binding criteria for the minimum length of trainings and specific subjects should be determined so that there will be enough time to learn the material and to do justice to the complexity of the profession.
5.9	The profession must actively contribute to the quality of the education by providing experienced and prominent practitioners.
5.10	The accountancy sector takes the initiative to set up an independent scientific research institute. This institute should review the effects of audits, drivers of (insufficient) audit quality (root-cause analysis), the effects of measures taken (internationally) concerning the sector. It should also play a role in the further development of the profession of the future. The initiative must be started from the Netherlands, including a contribution from the Dutch firms to financial means, people (PhD students), data and access to practitioners, such as senior partners and directors. Connection should be sought with international prominent scientists and international organisations from within and outside the sector as soon as possible to create a strong and relevant institute. In 2015, a letter of intent should be drawn to this end between NBA, firms, and universities, and from the Netherlands an international tender process should be started. The sector commits itself to financing the institute and providing the above-mentioned required means. The institute's independence must be guaranteed in the governance.
6.1	The NBA reviews the implementation of a mechanism that is specifically aimed at learning from failures made by auditors, which is similar to the mechanism currently used by the Dutch safety Board. The NBA obliges auditors to cooperate with the review of files and indemnifies them against any enforcement measure or legal proceedings by the NBA or its related bodies. Files that are selected for review will be handed over to the independent scientific research institute which performs root-cause analyses based on these files. A condition for the implementation of this mechanism is that confidentiality is maintained where it concerns information of individual files, accountants and findings. The lessons learned from this will be reported on the basis of anonymity.
6.2	The NBA takes care of the systematic translation of the findings of the AFM, the Accountant's Court, College for Peer Review, research institute and other sources for the public good, amendment of the professional standards and education. In doing so it specifically fulfills its legal duty, i.e. quality improvement and advocacy of the collective professional interest.
6.3	The NBA organises a two-yearly compulsory Permanent Education (PE) training session, which deals in detail with what the profession can and must learn from the findings of the AFM, the Accountant's Court, College for Peer Review, research institute and other parties. Accountancy organisations research if there are sufficient guarantees within their organisation to avoid such cases and the board of directors and compliance officer establish in conjunction with the supervisory board if and which measures are required relating to the lessons learned from the public procedures.

Impact on	Introduction of initiative	Term
All licence holders	NBA (laws and regulations)	short term
All licence holders	Firms	short term
All licence holders	NBA (laws and regulations)	medium term
All accountants	NBA, CEA	short term
All accountants	NBA, CEA	short term
All accountants	Firms	short term
All accountants	Firms, NBA	short term
All accountants	NBA	medium term
All accountants	NBA	short term
All accountants	NBA	short term

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No.	Measure
7.1	Further clarification of the role of shareholders and the supervisory board on the appointment of and communication with the auditor within the Code Corporate Governance. This clarification concerns the responsibility of the supervisory board for selecting the auditor, the agreement of the remuneration, and the direct communication with the auditor regarding his findings, in which the supervisory board (audit committee) should not only discharge its formal function, but also act as the physical body that maintains the relationship with the auditor. For this purpose, the V.2 principle will be developed into a number of best practices, which explicitly place the primary role and responsibility for these matters with the supervisory board.
7.2	Incorporation of a best practice provision into the Code Corporate Governance that the supervisory board must also clearly say at the general meeting, in which a vote is cast on the appointment of the auditor, on the basis of which the auditor is proposed. During this, the assessment of the auditor is in any case discussed in detail regarding a number of aspects of quality (such as AFM findings) and the remuneration compared to the other firms that have been invited to present a proposal.
7.3	Broadening of the compulsory provision of information by the supervisory board insofar as it concerns the assignment of, and findings of, the auditor, in the annual report.
7.4	Alignment of legislation and regulations in the field of annual reporting, which meets the users' needs. For example, extension of the information to be included by the management on strategy, continuity risks and other risks that are essential for a broader and more relevant insight into the profile and the performance of the company, and of information to be included by the supervisory board on the assignment to, and findings of, the auditor, comparable to the model that is used in the United Kingdom. Also see measure 4.3.
7.5	Amendment of the sector specific reporting regulations in line with the regular reporting regulations that are generally acceptable and generally recognised. This can include reporting regulations that apply to the public sector.
7.6	Classification of findings by the AFM from supervision on auditors, and motivation by the AFM for taking action or not as a result of these findings. We recommend that the AFM indicates and motivates if and why findings have led to the imposition of a fine or not, and if so, the sum of the fine, bringing proceedings against the auditor concerned, and the withdrawal of a licence of the accountancy organisation or not, as well as the improvement actions that have been agreed with the accountancy organisation as a result of the findings.
7.7	Adjustment of the audit limits and extension of the definition of PIE (classification of specific types of organisations which will fall under the scope) on the basis of the results of the research to be done.
7.8	The implementation of the necessary changes in the accountancy education programme, and Dutch universities and colleges making a stronger connection with accountancy practice in the field of research and education.
8.1	Accountancy organisations must account for the implementation of the measures included in a letter of intent following this report in their transparency report or annual report. As soon as the supervisory board is established in the relevant organisations, the supervisory board must govern the timely and correct implementation of those measures.
9.1	An independent monitoring committee will be formed to evaluate the implementation and operation of the measures referred to in this report, and it will propose additions and changes in cases where the findings give rise thereto as a result of the monitoring. The majority of the monitoring committee must consist of persons who are not connected to any accountancy organisation.
9.2	The AFM will govern the implementation of the measures described in this report within the accountancy organisations and the Dutch top holding of the group which the relevant accountancy organisation is part of.

Impact on	Introduction of initiative	Term
All licence holders	Monitoring committee corporate governance code	short term
All licence holders	Monitoring committee corporate governance code	short term
All licence holders	Monitoring committee corporate governance code	short term
All licence holders	[legislature, RJ]	short term
All licence holders	[legislature, RJ]	medium term
All licence holders	AFM	short term
All licence holders	Legislature	medium term
All accountants	NBA, [universities and colleges]	short term
All licence holders	Firms	short term
All accountants	NBA	short term
PIE-firms (all)	AFM	short term

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