



GETTING TO THE HEART OF THE MATTER

**SECTOR ANALYSIS CONCERNING
DRIVERS OF AUDIT QUALITY**

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SECTOR ANALYSIS CONCERNING DRIVERS OF AUDIT QUALITY

Public Interest Steering Committee

Paul Dinkgreve (SRA)
Egbert Eeftink (KPMG)
Ad van Gils (PwC)
Pieter Jongstra (NBA), chairman
Peter Hopstaken (Mazars)
Rob Lelieveld (EY)
Roland Ogink (non-PIE work group)
Marco van der Vegte (Deloitte)
Berry Wammes (NBA)

This document features an analysis of the drivers of quality in statutory audits as well as the root causes of sub-standard audit quality. This analysis was carried out by the four largest audit firms (the so-called Big Four) under supervision from the NBA and then shared with other PIE audit firms and SRA. The collective analysis is part of the change agenda that the Public Interest Steering Committee presented in June 2017.

The analysis is based on regular root cause analyses carried out by the four largest audit firms in the past. Findings of these individual root cause analyses were shared, analysed and discussed in a work group featuring representatives from the four firms involved and then discussed with representatives from several other audit firms.

This document presents the findings of the whole process and is structured as follows:

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1. SUMMARY AND STRUCTURE OF THIS DOCUMENT

Why this analysis was carried out, as well as the context and approach, has been described in chapter 2. By sharing and analysing root cause analyses with the whole sector, it has been possible to gain insights into the drivers of audit quality and the process used for root cause analysis.

The issues that audit firms must focus on when setting up and conducting root cause analyses have been summarised in chapter 3. The analyses undertaken were used to identify drivers of audit quality, not only in relation to individual accountants or engagements but also in relation to firms and organisations.

Chapter 4 of this document also examines the drivers of audit quality from a sector perspective, by linking them to several sector dilemmas.

The table below provides an overview of ten drivers of audit quality which were identified in the sector analysis. These drivers have an effect on individual professionals, audit teams and engagements. They are also influenced by the (quality-related) policy implemented by the accountants organisations where professionals and teams operate. The table contains aspects of (quality-related) policy implemented by firms, which might have an impact on these drivers. Firms can be expected to take these aspects into account by incorporating them into their quality-related policy, monitoring their implementation and outcomes (and making changes if necessary) and reporting on them (internally to policy-makers and externally via transparency reports). The specific approach may differ from firm to firm. Several aspects should ideally be addressed at sector level, as part of the integral Audit Change Agenda.

The table also shows which of the addressed sector dilemmas might have an impact on the concerned drivers. The accompanying insights, which are based on the root cause analysis, can be found in paragraph 4.2. A more in-depth analysis will be included in a separate Green Paper, which is expected to be published by the Steering Committee later this year. To make things easier the table features a reference to the concerned paragraph for an explanation about each driver.

Identified driver of audit quality	Policy aspects at organisation/firm level which influence drivers of audit quality	Related sector dilemma	Reference
1. Stability of team	<ul style="list-style-type: none"> Personnel policy (recruitment and retention) and training policy and/or investment in training Survey of employee satisfaction and resulting follow-up/actions Organisation planning function 		4.1 4.2.4
2. Portfolio size and composition	<ul style="list-style-type: none"> Financial management and turnover objectives Tone from the top and role model behaviour Sector specialisation International network management and matrix management with sector turnover objectives 	Partner model 4.2.4	4.1
3. Team dynamics and diversity	<ul style="list-style-type: none"> Culture-related policy Diversity policy Collaboration between accountants and specialists within multidisciplinary organisations 	Multidisciplinary organisation	4.1 4.2.3

Identified driver of audit quality	Policy aspects at organisation/firm level which influence drivers of audit quality	Related sector dilemma	Reference
4. Partner and manager involvement	<ul style="list-style-type: none"> Financial management and turnover objectives Non-financial objectives concerning P/M involvement Tone from the top and role model behaviour 	Partner model	4.1 4.2.2 4.2.4
5. (Professional) Knowledge and its implementation	<ul style="list-style-type: none"> Learning & Development Support via guidance and tools (incl. technology) Root cause analysis and improvement programme Set-up and specification of internal quality reviews (both before and after report is issued) Consultation policy/obligations and investment in professional functions 		4.1 4.2.1 4.2.2
6. Critical professional attitude and critical judgement	<ul style="list-style-type: none"> Learning & Development Set-up and specification of internal quality reviews Consultation policy/obligations and investment in professional functions 		4.1 4.2.2 4.2.5
7. Adequate process management	<ul style="list-style-type: none"> Learning & Development Support for accountants via project/process management expertise¹ 		4. 4.2.1 4.2.3
8. Comfortable enough to conduct a robust dialogue	<ul style="list-style-type: none"> Tone from the top, including international network management Role model behaviour /communication about delayed deadlines and issuing unqualified opinions 	Earnings model	4.1 4.2.5
9. Deployment of experts and other accountants	<ul style="list-style-type: none"> Collaboration model between accountants and specialists within multidisciplinary organisations Learning & Development for accountants and experts Policy for client/engagement acceptance and continuation, for audit as well as advisory engagements Independence policy and procedures 	Multidisciplinary organisation	4.1 4.2.3
10. Maturity of audited organisation	<ul style="list-style-type: none"> Transparency about requirements accountants organisation sets for the audited organisation Policy for client/engagement acceptance and continuation 	Earnings model	4.1 4.2.5

This document is not the final step in this process. A collective root cause analysis should be periodically and iteratively repeated to improve the specificity and continuity of root cause analyses and to realise a process of continuous improvement. Chapter 5 contains a proposal for further steps in such an iterative process.

2. BACKGROUND

2.1. Context

Audit firms continuously analyse audit dossiers in order to identify the root causes of quality-related shortcomings in statutory audits as well as drivers of good quality ('good/best practices'). These analyses offer important input for quality improvement plans, which aim to eliminate root causes of quality-related shortcomings and reinforce drivers of good quality. Several firms have performed comprehensive root cause analyses that cover every level from the engagement to the whole organisation. They want to gain an insight into broader causes and drivers, which cannot be attributed to individual professionals but actually have a direct or indirect impact on their performance.

In 2016, the Accountancy Monitoring Commission also advocated implementing these root cause analyses at firm level. The sector realises the importance of doing so because this will offer a better insight into other root causes and fundamental dilemmas in the accountancy sector which might have an impact on audit quality. This stance is also supported by the AFM¹. According to the AFM, less emphasis should be placed on individual accountants and individual audits and more emphasis should be placed on factors at organisation or firm level that either have a positive or negative effect on quality. The AFM has also realised that some firms have progressed more than others when it comes to further enhancing their root cause analyses.

The NBA presented its 'Audit Change Agenda' in mid-June 2017. This agenda has breathed new life into the series of improvement measures presented in the report entitled 'In the public interest'. The change agenda is supervised by the Public Interest Steering Committee, where nine accountants organisations with a PIE licence have joined forces with the SRA and NBA.

This agenda aims to adopt a more fundamental approach to the sector's improvement programme, reinforcing the 53 measures already implemented over the past few years. All this is being done in collaboration with stakeholders. This is what the agenda has to say about root cause analyses:

"Partly upon request from the AFM, PIE (OOB) license holders performed root cause analyses at dossier and firm level. These root cause analyses were carried out per firm. Nonetheless, expansion to sector level is needed to improve insight into common causes and improve analysis methodology and take collective actions wherever necessary."

2.2. Approach

The approach adopted for the sector analysis involved sharing, discussing and further analysing the individual root cause analyses of the four firms so an in-depth sector analysis would be realised. Several meetings were organised, where representatives of the four firms exchanged information about the process used for root cause analyses, the shortcomings encountered, best practices and identified drivers and causes. This not only involved examining root causes at dossier level but also involved exploring aspects at firm level which might have an impact on audit quality. The root causes identified by individual firms were further specified throughout various meetings, to see if any underlying causes might be identified at firm or organisation level. In addition, several sector dilemmas were used to take another look at the root cause analyses and identified causes, to determine if, and to what extent, these dilemmas may have had an impact on the causes identified for shortcomings in quality and drivers of good quality.

¹ Refer to the AFM report entitled 'Kwaliteit OOB-accountantsorganisaties onderzocht - Uitkomsten van onderzoeken naar de implementatie en borging van verandertrajecten bij de OOB-accountantsorganisaties en de kwaliteit van wettelijke controles bij de Big 4-accountantsorganisaties' of 28 June 2017, page 13.

This document highlights insights that have been gained from the sector analysis. One of the aims is to gain a widely-shared insight into what the four involved firms learned from their root cause analyses when it comes to the layout of the process. Firms can further improve their processes for root cause analyses by sharing best practices. These insights have been included in chapter 3. Another aim is to share these new insights about identified drivers of quality and causes of shortcomings with the whole sector. This will allow firms to implement improvement measures and give the sector an opportunity to develop initiatives that help to improve quality.

3. PROCESS FOR ROOT CAUSE ANALYSIS

3.1. Explanation about the root cause analysis process

Root cause analyses are carried out in order to find the underlying causes of certain symptoms. Appropriate improvement measures can only be defined once these underlying causes have been identified. Large accountants organisations often use root cause analyses to identify the underlying causes of findings that have resulted in positive or negative conclusions about quality in individual audits. The actual aim is to identify factors that either increase or decrease quality and to gain an insight into causes that influence shortcomings and best practices in audits and audit dossiers.

Root cause analyses help organisations to resolve identified causes of sub-standard audit quality and reinforce the drivers of good quality. These analyses make sure time is only spent on actual causes and not on (wrongly) identified or obvious findings or symptoms.

The term ‘root cause analysis’ covers a wide range of methods and techniques for identifying actual underlying causes (‘the why of the why’). In order to achieve the objective of the root cause analysis it is important to identify the causes of shortcomings in audit quality as well as circumstances that have a positive impact on audit quality. That is why root cause analyses should not only focus on situations where quality is sub-standard but also on encountered good/best practices.

The four largest audit firms perform analyses at various levels and layers of their respective organisations which include professionals, engagements and audit standards. In addition, aspects are also analysed at firm level. This for example, involves management and control, collaboration between the various disciplines in the organisation as well as culture and behaviour. It should be noted that these aspects are not always given the same priority in the root cause analyses of the various firms. The quality of individual root cause analyses as well as the overall sector root cause analysis can be improved by addressing these aspects in a repetitive and structural manner.

3.2. Four phases of root cause analyses

Root cause analyses into the quality of statutory audits normally consist of four phases:

Phase 1: Issue definition

Issue definition is the first step in any root cause analysis; this involves identifying and specifying the issue that needs to be investigated. This might relate to specific findings from internal or external quality assessments or a recurring quality-related theme. Asking the right research question is an extremely important step in the root cause analysis and allows specific analyses to be carried out and effective (corrective) measures to be identified.

Phase 2: Data collection

Data collection is the second phase in root cause analyses. This involves inventorying required data and selecting the method of collection, which might include interviews, questionnaires, focus groups, dossier/documentation reviews and system data collection. It is important for selected collection methods to be compatible with the nature of the collected data. For example, data about cultural and behavioural aspects may need to be collected differently from data about audit standards or areas.

Phase 3: Identifying causes

This phase involves the initial identification, validation and specification of any identified causes. The objective is to find the most deep-rooted cause. Various methods can be used for this analysis. The most commonly used and perhaps the most well-known are the 'fish bone' diagram and the 'x whys'. By repeatedly asking 'why' it is possible to identify real, underlying causes that have a causal relationship with the finding or symptom.

Phase 4: Determining further action and monitoring implementation

Once the causes have been identified, actions and measures are formulated to eliminate causes (for shortcomings in audit quality) or reinforce drivers of audit quality (for best practices and good quality). These measures are then implemented and their implementation is monitored. Several accountants organisations also report on this in their transparency reports.

3.3. Underlying principles when performing the root cause analysis

The following underlying principles are important in effective root causes analyses:

- The root cause analysis must be an iterative process. It is important to use new data and insights to periodically update the defined issue and identified causes. This is because circumstances are always changing, but also because it prevents accountants from quickly identifying obvious causes or symptoms instead of the actual underlying cause.
- Rushed conclusions or preconceptions among the accountants involved must be avoided. They must have an objective attitude and be aware about the risk of prejudices. This can be done by asking in-depth questions and discussing the results of root cause analyses with the person involved.
- There is often no direct relationship between a shortcoming in quality and the accompanying cause. Shortcomings can have several causes. This means it is important to not stop the route cause analysis as soon as a cause has been found. The same applies to best practises.
- A root cause analysis is a learning tool that organisations can use to improve their performance. This means it is important for the parties involved to adopt an open and vulnerable stance throughout the root cause analysis process; this should actually be encouraged by the organisation.
- Because root cause analyses are a continuous process, it is important to have a fixed (stable) and experienced root cause analysis team. It is also important for this team to possess the required expertise concerning standards, process management and behaviour. In addition, root cause analyses also require the root cause analysis team to display experience, seniority and independency.
- Root cause analyses require appropriate governance where, for example, a steering committee supervises and manages the process and creates conditions that allow the root cause analysis team to do its job effectively and impartially.

3.4. Involving professionals as well as firms and the sector

The root cause analysis process includes evaluating aspects at firm or organisation level - such as structure, governance, management, technology and support - which might have a positive or negative impact on audit quality and consequently be regarded as causes.

In addition, the sector analysis also took a critical look - based on several sector dilemmas - at the identified causes. Firstly, to discover if, and in which manner, these dilemmas may have a causal relationship with shortcomings in audit quality or best practices. Secondly, to examine whether more underlying causes and drivers might be identified at firm or sector level. Sector dilemmas used in the analysis involve the definitions for quality, fraud and continuity, multidisciplinary organisation, partner model and earnings model. These themes are generally in line with sector dilemmas (referred to as 'wicked problems') identified by the Accountancy Monitoring Commission in 2016.

4. FINDINGS OF ROOT CAUSE ANALYSES

4.1. Main identified drivers of quality

The sector analysis undertaken presented the following drivers of quality. These drivers are (pre-) requisites for quality within audits. Quality may be sub-standard if one or more of these conditions are not met. 'Best practice' audits tend to meet the following conditions:

1. **The audit team is stable** - not many changes are made to the team or changes to the team can be managed adequately. The team is flexible enough to deal with unforeseen circumstances
2. **Appropriate portfolio size and composition** - the number, size and nature of engagements assigned to professionals must be in keeping with their availability, experience and specific (sector) knowledge. Similarly, it is important for underlying messages about desired change and actions concerning size and composition to be heard and understood. Organisations must use appropriate follow-up actions to address these aspects.
3. **Audit team has diverse composition and there is enough interaction** - the audit team must be balanced, people must be able to air their opinions and individual behaviour in the team must help to improve quality.
4. **High level of involvement among partners and senior team members** - partners and senior team members must actively share (client-specific) knowledge, punctually review audit activities and intensively guide and coach team members throughout the engagement
5. **The audit team possesses (professional) knowledge about methodology, NV COS, reporting standards, the audited company and the sector** - team members must be capable of implementing this knowledge, learn from findings encountered in the past and rely on audit standards and other relevant guidance to make well founded decisions
6. **Team members have a critical professional attitude and critical judgement** - people must not be too quick to argue that enough certainty has been achieved ('tunnel vision'). Focus must be placed on performing the activities needed to obtain sufficient and suitable audit information. Activities must aim to prevent platitudes and blind spots in risk analyses. The audit approach and activities undertaken must be evaluated in a critical manner, also when it comes to the previous audit year. There must be professional discipline when performing and registering activities required of the accountancy profession.
7. **There is adequate process management** - knowledge, expertise and implementation of process and project-oriented thinking must be sufficiently embedded into the audit team, which makes it possible to carry out the audit in an effective and efficient manner.
8. **The audit team must conduct robust dialogue at crucial moments** - team members receive enough support and feel comfortable enough to conduct a robust dialogue at crucial moments in the audited organisation. It is more important to perform the required activities than it is to meet deadlines or consider commercial interests. Adequate process and project management ensures this robust dialogue is conducted with the audited organisation in good time. Support from the orga-

nisation is also crucial at important moments in such a process.

9. **The audit team adopts a critical stance towards activities carried out by specialists** - there must be a critical professional attitude towards the management, communication and reporting of deployed experts or other accountants.
10. **The audited organisation implements mature internal control** - appropriate internal control and sufficient expertise about audit and reporting issues at the audited organisation must help to improve audit quality and complete audit activities on time. It may not be possible to achieve good quality audits in organisations that lack this maturity.

4.2. Analysis about influence of sector dilemmas on findings root cause analyses

Besides analysing the causes of shortcomings and drivers of best practices concerning audit quality at dossier and firm level, drivers and causes for five sector dilemmas were also evaluated:

1. Quality
2. Fraud and continuity
3. The multidisciplinary organisation
4. The partner model
5. The earnings model

The result of this evaluation has been specified in more detail later in this paragraph. This involves paying attention to the following:

- description of the dilemma;
- relevant observations from the root cause analysis;
- relevant implemented or yet-to-be-implemented measures; and
- additional areas of attention based on the sector analysis

4.2.1. Quality

4.2.1.1. Description of dilemma

‘Quality’ has several dimensions because various stakeholders are involved. If all stakeholders adopted the same definition for quality, the quality-improvement efforts of accountants would lead to results that meet the expectations of all stakeholders. If everyone does not use the same definition for quality, accountants can work on the issue of quality (as defined by them or specific stakeholders) without meeting the expectations of all stakeholders because they define ‘quality’ in a different manner.

4.2.1.2. Observations from root cause analyses

The root cause analyses showed that accountants take into account various quality-related aspects in their decisions and considerations. Accountants say they understand that an audit will only meet quality-related demands if it has been carried out in accordance with NVCOS/ISA requirements.

The root cause analyses showed that detailed knowledge about relevant laws and regulations helps to complete the audit and audit-related documentation in accordance with NV COS/ISA. If sufficient knowledge is available, this increases the likelihood of professionals implementing audit activities effectively and carrying out the required amount of auditing work when doing so. This helps to avoid situations where not enough auditing activities are carried out or situations where unnecessary activities are carried out. Both situations were encountered in the root cause analyses.

Besides sufficient knowledge about laws and regulations, the root cause analyses demonstrate the importance of discipline when regularly accessing and updating (specialised) professional knowledge. Knowledge and experience must be readily available if an audit is to be planned and conducted effectively. Errors can possibly still occur throughout implementation if the approach or conclusions have not been

properly evaluated against relevant laws and regulations or available internal or external guidance. This was not straightforward in all cases. When dealing with (complex) issues the risk of inaccurate conclusions is reduced if final conclusions are only reached after referring to relevant professional information. The root cause analyses also showed that well documented dossiers help to improve audit quality. This means decisions, critical evaluations of premises and the manner in which audit evidence is obtained must be adequately documented and easy to trace by professional accountants not involved in the audit. It is also important for consistency in the dossier to be safeguarded by performing all identified activities as planned ('plan the audit' and 'audit to the plan'). If another approach is dictated by circumstances or changes at the audited organisation, reasons for - and details of - the changed audit strategy must be adequately documented in the dossier.

A commonly encountered cause for shortcomings in audit quality involves insufficient (reflection) time in the audit to refer to relevant professional information and late involvement of senior team members when the team is determining the audit strategy and reviewing audit activities.

Further questioning into the underlying causes resulted in the following insights:

- The search for relevant professional information still needs to be further embedded into the behaviour of accountants. This must feel natural to them and requires a certain degree of self-criticism and discipline. Several sub-standard audits showed that accounts had made choices based on experience and a logical rationale. In these cases quality - with regards to carrying out the audit in accordance with NV COS/ISA - might have been improved by more explicitly referring and adhering to (formal) requirements when performing activities. This for example, applies when taking random samples, checking estimates, obtaining external conformations and using specialists and other accountants.
- Effective planning and process management are a decisive factor in correctly executed audits. Adequate planning and process management was in place when senior team members were punctually involved or when sufficient research was carried out into audit or accounting guidance.
- Quality can also be improved if teams are stable and balanced (and diverse) when it comes to continuity. This involves the critical evaluation of team composition throughout all phases of the audit, namely in situations where audit activities are delayed or take longer than expected.
- The quality of material delivered by the audited organisation can have a meaningful impact on audit quality. Audit activities carried out are more likely to be of higher quality if the audit goes according to plan, than if unexpected abnormalities are encountered throughout the audit. This includes late delivery, unexpected exceptions or inefficient internal control. If there is not enough time to carry out alternative activities, or there are too few team members with appropriate and required professional knowledge, there is a risk of accountants identifying outstanding risks as acceptable. This risk is compounded if accountants do not feel sufficiently comfortable when discussing deadline extensions.

In addition, the analyses show that individual accountants can be uncertain about how NV COS/ISA requirements and explanatory information must be interpreted.

The root cause analyses indicate that such uncertainty can be fuelled/reinforced by the following circumstances:

- In recent years, internal and external reviews have questioned the audit quality of partners, while the concerned audit firms see them as (very) good professionals;
- AFM reviews carried out in recent years have deemed audit quality to be insufficient while internal reviews (incl. reviews by the international network) have deemed it to be sufficient;
- International supervisory bodies reach different conclusions about the quality of audits carried out within the network, while such differences are not witnessed in internal reviews within the network;
- 'Joint inspections' performed in recent years often resulted in differences in insight between the AFM and the PCAOB.

4.2.1.3. Relevant implemented or yet-to-be-implemented measures

In recent years a wide range of measures have been taken, either via laws and regulations or under initiative from the sector in order to improve quality. This for example, includes broader professional functions, consultation obligations for various topics, periodic quality reviews, extra training and more time and partner involvement in engagements. Several firms report on these initiatives via their transparency reports. In addition, the following measures from the “In the Public Interest” sector report of September 2014 are being or have been implemented.

- Remuneration system, promotion policy and profit consolidation based on quality, including partner promotion curriculum (quality reviews and experience in quality function) (measures 3.1, 3.3, 3.4);
- Claw-back arrangement for all partners that operate as external accountants (measure 3.5);
- Appointment of supervisory board to ensure balance between commercial interests and quality (measures 2.1, 2.3);
- Allocation of BoD member for quality issues (measure 2.8);
- Comprehensive auditor’s report for PIE’s and action in GMS to improve insight into audit and encourage debate with stakeholders (measure 4.5);
- Expansion of PIE definition and accompanying quality safeguards (measure 4.9);
- Be more comprehensive when reporting about quality in the transparency report or annual report (measure 5.1);
- Intensify engagement quality control review (measure 5.3);
- Improvement plan set up by audit partner if quality requirements are not met (measure 5.5);
- Establishment of Foundation for Auditing Research (measure 5.10);
- Greater focus on quality when appointing accountant (measure 7.2).

A lot of the measures above have already been implemented in the PIE segment of the sector and are directly or indirectly helping to improve quality. The effects of these measures should gradually appear - in the form of quality improvements - in the results of quality reviews.

For quite some time, many accountants and accountants organisations have been insufficiently aware of audit shortcomings when it comes to specific requirements in NVCOS/ISA standards. Better supervision has helped to shed light on this issue and quality is now being addressed because organisations are more aware of the need to improve and are implementing change programmes to foster learning. This is accompanied by uncertainty among professionals, partners and employees who cannot or are unwilling to deal with the change process (and leave the organisation), increased real or perceived workload, stricter choices concerning portfolio size and, in a similar vein, acceptance and continuation of new engagements.

4.2.1.4. Additional areas of attention based on the sector analysis

- The sector must do more to achieve a culture where finding and systematically implementing relevant professional information is standard practice at all levels in the team;
- Firms, professional bodies and supervisory bodies must conduct structural dialogue about the implementation of norms and the interpretation of laws and regulations, so mutual understanding is improved and norms are better implemented.

- Firms must improve their audit-related project and process management (including team composition) and be better prepared for exceptions to the planned audit process.

4.2.2. Fraud and continuity

4.2.2.1. Description of dilemma

Society has high expectations of accountants when it comes to discovering fraud and warning about risks associated with continuity. At the same time, tools available in audits have inherent limitations and prevent these expectations from being met.

4.2.2.2. Observations from root cause analyses

Several root cause analyses showed that accountants are sometimes too quick to blame audit-related limitations where these topics are concerned. For instance, the following improvements are possible as far as fraud (including bribery and corruption) is concerned:

- Do not be too quick to proclaim limited risk of fraud (for example, in relation to turnover).
- Improve discussion about and analysis of fraud risk factors, at an appropriate level in the team and modify the audit strategy accordingly.
- Perform journal entry testing in accordance with requirements and pay attention to fraud-related risks. It is important to correctly time these activities and involve the partner and senior team members.

Furthermore, the analyses also showed the need for greater transparency about the responsibilities of accountants concerning (the thoroughness of) audits into risks of fraud and continuity.

4.2.2.3. Relevant implemented or yet-to-be-implemented measures

The following fraud-related initiatives have been taken in recent years:

- Direct coordination about fraud-related risks and methodology with the supervisory board at the audited organisation and use of data analysis ('In the Public Interest' report, measure 4.4);
- Use of forensic specialists (using pre-defined criteria) in selected audit engagements and more intensive consultation procedures for (potential indicators of) fraud and/or bribery and corruption;
- Mandatory fraud training by NBA in 2017;
- Set-up of Focus on fraud 2017 work group, report and meeting.

The 'In the Public Interest' report also proposed expanding reporting on the premise of continuity and continuity risks in the management report (measure 7.4). It also says accountants must explicitly report on the matter in the declaration of management reports or auditor's reports (measure 4.3).

To date, these proposals have only been partly implemented in regulations. The revised corporate governance code requires boards to make an explicit declaration about material risks and uncertainties, which might be relevant to the expected continuity of the company for a period of twelve months from the moment the report is compiled. Large PIE's must also include a non-financial declaration that for example, addresses the prevention of corruption and bribery.

In addition, the role of accountants has been expanded as of 2016 Financial statements. Accountants must use the knowledge and understanding they gain throughout the Financial statement audit to form an opinion about the management report. In reality, the scope and depth of these changes (about expanding

reporting for a limited number of companies) falls short of the level intended in the 'In the Public Interest' report.

4.2.2.4. Additional areas of attention based on the sector analysis

The sector analysis did not offer any additional findings about the risk of continuity and shows that it is important to take further steps when it comes to the role accountants play in fraud detection. When it comes to risks concerning continuity and fraud detection accountants alone cannot close the gap between social expectations and the activities they perform. More intensive stakeholder dialogue about these topics is needed. Besides accountants, various other parties also have a role to play, including legislators, audited organisations and supervisory bodies.

4.2.3. The multidisciplinary organisation

4.2.3.1. Description of dilemma

Independence-related requirements may not be met if (for instance, due to the complexity of EU legislation in the PIE segment) a single organisation performs the audit and also offers advice. Similarly, this combination of auditing and advice might also endanger neutrality in the non-PIE segment. In addition, third parties have stated that different profit levels in various divisions might lead to tension within the organisation. In contrast, it is important for specialised knowledge about actuarial issues, IT, tax, accounting measurements, etc. to be acquired and embedded and for multidisciplinary organisations to attract talent by offering better career possibilities. International multidisciplinary networks also offer the opportunity to make major investments in quality-improving technology and techniques.

4.2.3.2 Observations in root cause analyses

The root cause analyses showed that a multi-disciplinary audit team and direct access to appropriate specialists is considered a quality-improving factor in audits. If teams use appropriate specialists and people communicate and cooperate with them effectively, then the multi-disciplinary character contributes to audit quality (also see driver 9 in paragraph 4.1). It is important for specialists to be sufficiently familiar with relevant sections in reporting, audit and documentation standards in addition to their own specific expertise. Several analyses also showed that effective cooperation between accountants and specialists is very important but also that there is room for improvement on this front. Audits identified as 'best practice' involved effective cooperation with peers while the use of, and cooperation with, other disciplines was less effective in audits where quality was sub-standard. This was a factor in several specialisations, particularly in the field of IT.

The root cause analyses highlighted a finely balanced consideration which can have an impact on the use of specialists in audits. On the one hand, in order to develop in-depth expertise, it is important for specialists to develop their expertise in a wide range of audit and advisory engagements. The effectiveness of an external accountant's risk analysis can be improved by using (the well-developed skills of) specialists in the audit. This also makes it easier to determine the extent to which auditing activities undertaken are sufficient. On the other hand, attempts to allow specialists to develop a wide range of skills and gain experience and expertise, via audits as well as advisory engagements can make it difficult to find enough personnel for engagements.

Accountants organisation must have enough reserve capacity if they want to make sure an appropriate number of specialists can be used in audit engagements. The quality of audits might be endangered if this is not the case. For instance, if a lot of advisory engagements are received within the same period. Analysis shows that the acceptance process for auditing and advisory engagements must be safeguarded at an appropriate level within the organisation. In other words, advisory engagements must be refused if accepting them might endanger the existing deployment of specialists in auditing engagements.

Adequate project and process management is one of the main recurring themes when it comes to ensuring appropriate deployment of specialists in auditing engagements. Specialists are often well deployed in engagements when effective project and process management is implemented and when engagements have been planned well in advance. This means the need to deploy specialists must be recognised and planned in good time.

Finally, it appears that communication between specialists and the audit team (about the specialists' findings) is a key factor. When effective quality was realised it appears to have been accompanied by timely coordination. This allows accountants to effectively incorporate the consequences of the specialist's findings into the audit plan. The risk of shortcomings in audit quality increases if coordination is ineffective or if the accountant is unable to gain a proper insight into the consequences of the specialist's findings.

4.2.3.4. Summary and further investigation in Structural models green paper

To summarise, root cause analyses used in the sector analysis showed that multi-disciplinary organisations do not have a negative impact on audit quality. On the contrary; using a variety of specialists appears to have a positive impact on audit quality. The root cause analyses showed that audit quality can be improved when accountants and specialists work together to create clear conditions and safeguards. But certain areas need to be focused on when doing so:

- Adequate project and process management is needed when deploying specialists in auditing engagements. This is something accountants organisations must pay more attention to;
- Greater focus must be placed on clear and timely coordination between the audit team and relevant specialists when it comes to effectively following up the findings of specialists in statutory audits;
- The acceptance process for auditing and advisory engagements must take place at an appropriate level within the organisation, so the existing deployment of specialists in auditing engagements is not put at risk.

When trying to maintain quality standards, partners and teams did not encounter obstacles directly associated with the firm also featuring disciplines other than the accounting department. The analyses concerned did not show whether this combination plays a role at organisation level or whether it has an effect on engagements. This matter requires further investigation and has been addressed by the change agenda. The yet-to-be-published green paper entitled Structural models will feature further firm-based analysis into the effects of multidisciplinary organisations (as one of the structural models for an accountants organisation) on audit quality.

4.2.4. The partner model

4.2.4.1. Description of dilemma

The partner model is characterised by a combination of partner roles: professional, entrepreneur and shareholder. This means partners (each to a different extent) have a say in operational management, including the level of investment and profit distribution. This can create conflict between the desire for short-term profit maximisation and the long-term sustainability of the organisation. In contrast, operating in a market environment can motivate partners to improve their reputation, innovation and efficiency.

4.2.4.2. Observations from root cause analyses

The compatibility of team composition with workload and portfolio size is one of the main recurring factors for quality. Team composition and process management were effective in several audits identified as 'good practice' and only limited turnover and planning bottlenecks were encountered. In several audits identified as sub-standard, bottlenecks were caused by turnover within the team and pressure on team deployment. In several other cases, due to the risks encountered, a decision was made to pay more attention to high-risk audits and less attention to the engagement selected for the quality review.

In many cases the bottlenecks identified were not addressed adequately or punctually. The reasons often related to insufficient process management, insufficient flexibility in planning (particularly throughout peak moments) and the inability to effectively foresee the effect of for example, PIE rotations. In a few audits, this led to situations where team composition was sub-standard. This area needs to be addressed by various firms but is not directly linked to the partner model.

None of the shared root cause analyses showed that structural decisions had been made to perform audits with under-deployed teams in an attempt to pursue short-term profits. The root cause analyses indicated that in recent years firms have made explicit choices about the number of audits that can be carried out with the capacity available to them. Partner portfolios have become smaller and new or ongoing engagements are being refused more often. This has also been noticed by partners and employees.

People did indicate that in several cases decisions had been made to recruit fewer people or sack more people throughout the financial crisis. This, together with increasing demand for professionals - due to investments in quality and mandatory firm rotation in the PIE segment led to increased workload in the years that followed. It should be noted that people were still being recruited in this period but stricter quality standards were being implemented. Although this led to a decrease in the number of employees the quality of professionals actually improved.

In terms of investments in other areas (electronic dossiers, data analysis, training and professional support), the root cause analyses showed that firms generally make sure the audit department possesses adequate resources, infrastructure and support. The level of this investment has increased further in recent years. Large firms also tend to make such investments within their international networks.

4.2.4.3. Summary and further investigation in Structural models green paper

With regards to the partner model, the root cause analyses indicated that accountants organisations must implement enough safeguards to ensure an appropriate balance between investments in efficiency, innovation and quality. The yet-to-be-published green paper entitled Structural models will contain a more in-depth analysis into the effects of the partner model on audit quality.

4.2.5. The earnings model

4.2.5.1. Description of dilemma

This sector dilemma is based on the fact that audited organisations appoint and pay accountants while audits are actually carried out for stakeholders/society. This implies a conflict of interests and requires accountants to take a firm stance and prioritise public interests when doing their jobs.

4.2.5.2. Observations from root cause analyses

The shared root cause analyses showed that audit teams generally feel sufficiently supported by accountants organisations when delivering unpleasant news and taking a firm stance. One of the analyses showed that concessions in quality were made because the audited organisation was also the client.

Some accountants reported that they encountered difficulties in talking to companies about delaying deadlines when auditing activities have not yet been completed. In this case they find it difficult renege on already established agreements, particularly if the audit process has not been managed properly and part of the blame lies with the audit team and not (only) the audited organisation. In addition, the needs and interests of stakeholders often cause accountants to work under the pressure of deadlines. Another factor is that audits may already be scheduled or started at another organisation, which means matters are no longer followed up as effectively as one would expect. This means accountants may be too quick to think the required certainty has been achieved or may take shortcuts. In these cases decisions were often made (under the pressure of deadlines) due to factors like adequate process and project management, portfolio size and ability to deal with surprises in the audit process and not because the audited organisation was

paying for the engagement.

Various interviews show that accountants are becoming increasingly aware of their public role. Accountants feel supported by their organisations when it comes to taking a firm stance. The team members involved in the root cause analyses say this has increased in recent years. Accountants organisations also shared examples of audits teams that postponed deadlines, where the decision was appreciated by the organisation involved. News in the media about accountants postponing deadlines or not giving the green light to Financial statements has a strong, positive impact on the organisation concerned.

The root cause analysis does show that there are differences in the extent to which audited organisations rate the importance of audits. In many cases this is associated with the extent to which external stakeholders (like suppliers of equity and borrowed capital) have an influence on the audited organisation. There is also convergence when it comes to the maturity of audited organisations with regards to internal control and the supply of (financial) information. The effects of this can often also be seen in the governance of organisations. For example, is there an audit committee, what expertise does it possess and how does it respond in case of problems or delays? If audited organisations believe audits are of little value and there is no real resistance from external stakeholders or bodies within the organisations' governance, this can result in pressure on audit-related budgets and lack of understanding about intended activities. Accountants organisations have now started to establish more explicit conditions. On the one hand, this is leading to more auditing capacity being deployed and on the other hand, to greater selectivity in accepting or rejecting auditing engagements. Nonetheless, the root cause analyses still showed that the quality and maturity of audited organisations are important factors that regularly have an impact on audit quality.

4.2.5.3. Summary and further investigation in Structural models green paper

The root cause analyses showed that the maturity and governance of the audited company has a major influence on the quality of audits carried out by the accountant. If internal control and governance in an organisation do not help to improve the audit, accountants must address shortcomings and make sure the audit meets the requirements. This starts with an appropriate audit budget that makes all this possible. The yet-to-be-published green paper entitled Structural models will contain a more in-depth analysis into the effects of the earnings model on audit quality.

5. FURTHER STEPS

This document has highlighted the insights gained from the root cause analyses shared by the four largest accountants organisations. These insights were also evaluated by several medium-sized PIE licence holders and the SRA. This analysis offers the sector a comprehensive insight into the drivers of quality in relation to individual professionals, engagements and audit teams. The analysis also presents aspects concerning the (quality-related) policy of accountants organisations or firms, which can have a positive or negative impact on audit quality. These insights provide leads for further analysis and research as well as indicators for further measures and safeguards for improving quality among professionals, firms and the sector.

A collective root cause analysis as used in this report, should be periodically and iteratively repeated in order to improve the specificity and continuity of analyses and to achieve a process of continuous improvement. We believe the follow-up process should involve four elements:

1. Sector-wide development and coordination of root cause analyses at firm or organisation level.
2. Broader collective root cause analyses within the sector to include more accountants organisations and translation into relevant actions. The professional body NBA can play an important facilitative and supporting role in this.
3. More intensive and structural dialogue between the profession and stakeholders about their expectations of accountants (and audits) and improvements to be achieved by the sector.
4. More (independent) research into the effects of relevant dilemmas and other sector issues concerning the quality of audits. The Foundation for Auditing Research can play an important role in doing so.

