

This document contains bookmarks

Unofficial translation

**Practice Note Audit of (intermediate) holding companies with limited own activities**

1 December 2015

Koninklijke Nederlandse  
Beroepsorganisatie  
van Accountants



**NBA**

## 1 Introduction

Compared to some other countries, The Netherlands has a relatively large number of intermediate and top holding companies that have limited or no operational activities. These holding companies are established in the Netherlands for several reasons, such as to design efficient financial structures within large international companies, to provide in the companies' capital needs, or for tax reasons. Generally these holding companies have the group's operational activities take place abroad in other entities, the general and financial management is not located in the Netherlands, and the group has an "operational holding company" from which the group manages its operational activities. This practice note uses the following terminology:

This practice note deals with the audit of the (intermediate) holding companies with limited operational activities (hereinafter referred to as the holding company). In addition, there is an operational holding company that performs functions and activities such as accounting and group management (hereinafter referred to as operating holding company). The operational holding company is the holding company from which the operational activities are managed. The operating holding company is often located in a different location (at home or abroad) than the holding company. These two entities are audited by different auditors: the holding company's auditor and the operational holding company's auditor. The holding company's auditor would like to use the work of the operational holding company's auditor.

In companies worldwide, there is a great diversity in the legal and organisational structures. The auditor will take this into account in the design of its audit approach. Chapter 2 describes two corporate organisational structures. Only these two situations are described in the practice note. Given the objective of this practice note, no other situations are described, but elements from this practice note can also be used in other situations as applicable.

## 2 Applicability Standaard 600

### 2.1 Introduction

Although holding companies are usually not important for the company's operational activities, these companies are, under corporate law, a company which might<sup>1</sup> be subject to a statutory audit. The auditor of the Dutch holding company should therefore collect sufficient and appropriate audit evidence regarding the audit of the group's financial statements. The work of the operational holding company's auditor can be used for this purpose. In such an audit, the Dutch auditor should comply with Standard 600.

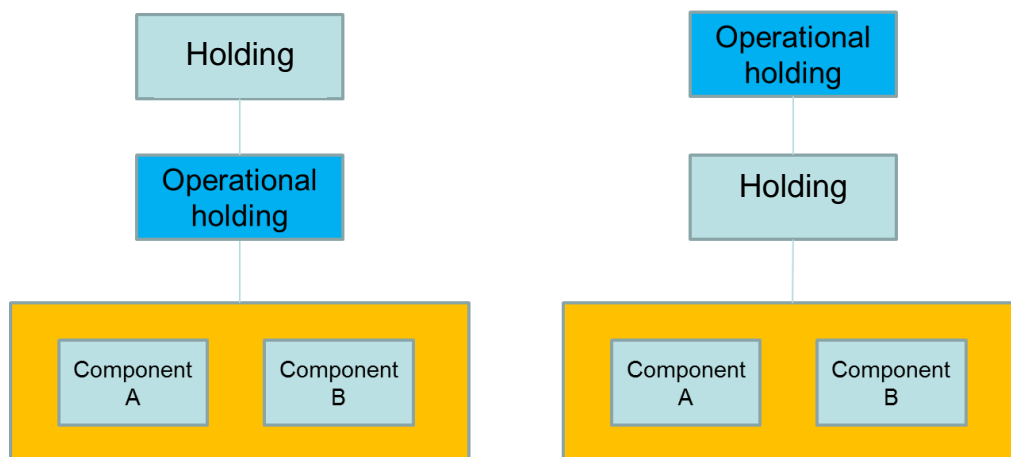
Based on the definitions in Standard 600, it is possible for the holding company's auditor to use the work of the operational holding company's auditor, regardless of which of these two entities is the parent company and which is the intermediate holding company. As such, even if the holding company is an intermediate holding company and is organisationally one of the operational holding company's group companies, the holding company's auditor may use the work of the operational holding company's auditor.

The application of the above can vary in practice, depending on the client's structure, laws and regulations, the share in the audit, etc. In the execution, it is important to apply the requirements of Standard 600 and explicitly document its application. This also applies when the holding company's auditor and the operational holding company's auditor **operate in fact as one team and use one file** to allow the holding company's auditor to carry the responsibility as group auditor. It is important that mutual responsibilities are agreed upon. This may be in the form of instructions, but may also be in the form of practical working arrangements, including work programs.

The Appendix to this practice note provides directions that can help to determine the approach, including the depth and scope of work that the Dutch holding company's auditor has to perform for the audit of the holding company's consolidated financial statements.

From the above it should be clear that it is not acceptable for the Dutch auditor to solely rely on auditor's reports of components. The Dutch auditor will always need to conduct additional procedures to form an understanding of the group and to direct the audit so that he can sign the auditor's report on the consolidated financial statements.

### 2.2 Two corporate organisational structures



<sup>1</sup> In some cases, holding companies can use an exemption for intermediate holding companies.

In both situations:

- The holding company is the parent company of a group;
- The holding company's auditor has undivided responsibility for the auditor's report on the group's financial statements;
- Standard 600 applies to the holding company's audit; and
- The operational holding company's auditor can be a component auditor under the definitions in the Dutch Auditing Standards.

### **Timing**

Ideally, the holding company's auditor is appointed before the start of the financial year. In this way, he can function efficiently and effectively in relation to the planning, the guiding of component auditors and the review of its work. This does not exclude that an auditor may be able to obtain sufficient and appropriate audit evidence if he is appointed after the appointment of the operational holding company's auditor, or, in exceptional cases, is appointed after the financial year he is to audit. In this case for example, the auditor may consider independently conducting a full audit over the financial year, and based on that understanding, a file review with the auditor who conducted the audit in recent years might be performed. This practice note will not discuss this scenario in further detail.

### **2.3 One legal entity**

If there is only one legal entity, then there is no holding company. This may occur in a situation where the registered office of an entity is established in the Netherlands (and therefore a Dutch entity), while the activities and operations (including management) and financial administration etc. are located abroad, but where no separate legal entity was established in the foreign country. No separate auditor's report will be issued if there is one team. In this situation, there are often two auditors who are involved in the Dutch entity's audit:

- 1 A Dutch auditor signing the auditor's report on the entity's statutory financial statements; and
- 2 A foreign auditor, who operates in the country where the activities/operations of the entity are, who carries out the Dutch entity's audit, in accordance with the Dutch auditor's instructions or practical working arrangements.

Compliance with the objectives of Standard 600 in the situation of one entity with two auditors is therefore not required. However, this does not mean that some requirements of Standard 600 may not be important when performing the engagement.

In these cases there is a single entity audit and therefore the Dutch ethical and professional requirements, including the Dutch Auditing Standards and the Dutch Code of Ethics apply to the entire team. When the Dutch entity is the head of a group, Standard 600 applies in relation to the audit of this group as a whole.

## Appendix: General considerations and relevant regulations

In the context of this practice note, the following Standards are considered in more detail:

- Standard 210 *Agreeing the Terms of Audit Engagements*;
- Standard 220 *Quality Control for an Audit of Financial Statements*;
- Standard 230 *Audit Documentation*;
- Standard 260 *Communication with Those Charged with Governance*;
- Standard 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*; and
- Standard 600 *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*.

This Appendix does not replace Standard 600. Auditors who use this Appendix will also need to ensure that all the relevant requirements of Standard 600 are complied with.

The Dutch auditor is responsible for the client and engagement acceptance<sup>2</sup>, risk assessment and the Dutch audit firm's ability to perform the audit. This assessment entails complying with relevant ethical and professional requirements, including the requirements to plan the audit, supervise and ensure the performance. Obviously, the Dutch auditor can cooperate with its foreign counterparts.

### Auditor of a holding company

The Appendix to this practice note describes a possible way how the holding company's auditor can deal with the following aspects:

- Use the work of the operational holding company's auditor;
- Timing of the audit;
- Access to the work of the operational holding company's auditor;
- Involvement with other auditors;
- Documentation of his own procedures;
- Audit of the consolidation;
- Composition of the audit team; and
- Communication with those charged with governance.

#### *Using the work of the operational holding company's auditor*

Standard 600 contains requirements and application material on audits of group financial statements. A component in a group is defined as an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements. Standard 600 does not specifically refer to holding companies, but it does apply to them. When the holding company is an intermediate holding company, its financial information is included in the financial statements of the operational holding company. If the operational holding company is head of the group, then formally it is not part of the group of the holding company. However, in practice the work of the operational holding company's auditor can be used if applicable (see 2.1).

Obviously, the holding company's auditor remains responsible for the auditor's report on the financial statements of this entity. He can use the work of the operational holding company's auditor if he has determined that the audit procedures performed are sufficient and appropriate for the holding company.

#### *Timing of the audit*

Ideally, the holding company's audit is synchronized with the group audit. In this way, both auditors can effectively fulfil the requirements of Standard 600 paragraphs 11 and 12 during the planning, performance and evaluation phase of the audit. Even if the holding company's audit will be completed after the group audit as a whole, it is still possible to work together effectively in many cases (see Standard 600 paragraph 3). In this case, the holding company's auditor has to set up the planning process in such a way that he can actually meet the objective of paragraph 8.b.i:

---

<sup>2</sup> Including complying with WWFT and other relevant regulations

*“To communicate clearly with component auditors about the scope and timing of their work on financial information related to components and their findings.”*

By making timely and appropriate arrangements with the operational holding company's auditor, the holding company's auditor has his own contribution in the relevant procedures for the holding company's audit, which are performed by the operational holding company's auditor based on the holding company's auditor's risk assessment. The areas where the holding company's auditor will pay attention to in the context of its risk analysis include:

- Sufficient visible involvement in the procedures of the operational holding company's auditor, including drafting of the overall group audit approach;
- Sufficient understanding of the holding company, components that are included in the holding company and the environments in which these components operate, including the identification of significant group components;
- Sufficient understanding of the operational holding company's auditor and, if necessary, auditors of the components of the operational holding company to determine if the holding company's auditor can use the work of these auditors (see Standard 600, paragraph 19). If the group auditor is part of the same network and there are common policies and procedures in place, then this will usually be the case (see Standard 600, paragraph A33);
- Determining the materiality for the holding company's financial statements including the components and coordinate with the operational holding company's auditor to ensure that the work is carried out with a materiality level that is adequate for the purpose of the holding company's audit.

As a follow-up to the risk assessment, the holding company's auditor shall, in accordance with Standard 600, take his responsibility to:

- Determine which procedures are necessary to mitigate the risks identified in the risk assessment;
- Roll out instructions and communication with component auditors through the group auditor.

These procedures will mostly take place in coordination with the operational holding company's auditor. With respect to communication with group components and their auditors, when the holding company's auditor cannot sufficiently rely on the communication of the operational holding company's auditor, the holding company's auditor and the operational holding company's auditor will work together. For example, it may be efficient and effective that reports about the work of component auditors are sent directly to both the operational holding company's auditor and the holding company's auditor. However, strictly speaking this is not necessary, as the holding company's auditor can also obtain the information through the operational holding company's auditor. It is also important that the holding company's auditor is informed by the operational holding company's auditor (group auditor) and / or the component auditors after each stage of the audit. Examples of activities that the holding company's auditor and operational holding company's auditor can perform jointly are:

- Discussions with management of the audited entity. topics may include: management's assessment of potential material misstatements in the financial statements due to fraud and / or error; the nature and extent of supervision of the financial reporting process, including the (intermediate) consolidation process as well as how management identifies and complies with relevant laws and regulations; and
- Share relevant knowledge of the audit with component auditors. This includes; knowledge of components and their environment, indications on material misstatement whether due to fraud or error, and sharing of information on indications of non-compliance with laws or regulations (Standard 600, paragraph A29).

It can happen that the holding company's auditor independently performs additional procedures, or, provides additional instructions to component auditors whether or not via the operational holding company's auditor. The work of the holding company's auditor should, by analogy with Standard 600, paragraph 24, be sufficient and appropriate to mitigate the risks he (independently) assessed.

#### *Access to the work of the operational holding company's auditor*

This Appendix assumes that the holding company's auditor has access to the operational holding company's auditor's work papers and, where necessary, those of the components (Standard 600,

paragraph A14). If this is not immediately obvious, it is advisable to arrange this with the client. Where relevant, this also complies with the requirements from article 15a Bta<sup>3</sup>.

The agreements should emphasize that the holding company's management, in consultation with operational holding company's management, ensures that the holding company's auditor will have access to the files of the operational holding company's auditor and where necessary, component auditors.

If access to the files cannot be obtained at group level, the holding company's auditor should question whether he can be the holding company's auditor. In that case, the holding company's auditor will have to collect audit evidence independently with respect to the relevant components by analogy with Standard 600 paragraph 44 and A62. If the auditor is not able to obtain sufficient and appropriate audit evidence, he will consider the effect for accepting or continuing the engagement in accordance with Standard 210 paragraph 7 or Standard 705 paragraph 11.

#### *Involvement with other auditors*

The differences in structures and involvement of auditors mean that this topic has to be assessed on a case-by-case basis. The Standard 600 requirement to act as group auditor should be leading. The holding company's auditor will always provide the central coordination and make his own assessment of the control risk, the follow-up and the involvement in significant audit and accounting aspects. It is not sufficient for the holding company's auditor to completely follow the audit procedures already performed by other auditors within the group.

#### *Documenting the auditor's own work*

In accordance with Standard 600 paragraph 50, article 15a Bta and based on Standard 230, the holding company's auditor will independently compile a file to support his opinion on the holding company's financial statements. It is possible that his file may consist mainly of copies of reports and analysis by the operational holding company's auditor and/or component auditors. However, the analysis and conclusions of the holding company's auditor regarding the procedures and reports of those auditors are essential. Furthermore, the file should show the involvement of the holding company's auditor during the planning, performance and evaluation phase similar to Standard 600 paragraphs 11 and 12. This should prove that the auditor has been involved sufficiently to justify his opinion.

To comply with the requirements above, the holding company's auditor will at least include the following information in his file:

- The results of its own risk assessment, including an understanding of the group, the group's (significant) components, environment and internal control;
- The nature, timing and extent of its involvement in the group auditor's work and, if applicable, the significant components auditor's work;
- Minutes of meetings with the group auditor with respect to the sharing of information concerning the risk assessment as well as the information provided by the holding company's auditor to the group auditor for the group instructions sent by the group auditor;
- Minutes of interim meetings with the group auditor as well as component auditors, management of the group and/or components and those charged with governance. These minutes include the topics discussed and the (potential) impact on the work of the holding company's auditor;
- The reports received from component auditors as well as the review of the results by the group auditor when relevant to the work of the holding company's auditor.
- The results of the auditor's work related to the consolidation process;
- The results of the auditor's work related to subsequent events; and
- An evaluation of the audit evidence obtained in support of his conclusion, often supported by the group auditor's work and own additional work.

#### *Audit of the consolidation*

Standard 600 has specific requirements pertinent to the group auditor. With regard to the audit of the consolidation, these include:

- The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group

---

<sup>3</sup> Dutch regulation based on the EU regulation regarding the oversight of audit firms

financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements (Standard 600 paragraph 33);

- The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and shall evaluate whether any fraud risk factors or indicators of possible management bias exist (Standard 600 paragraph 34);
- If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements (Standard 600 paragraph 35).

The audit of the consolidation may also be performed by the operational holding company's auditor. In that situation, the holding company's auditor will assess/review the appropriateness of the performed procedures of the other auditor.

#### *Composition of the audit team*

The group engagement team of the holding company can be composed of:

- Dutch auditors;
- Dutch and non-Dutch auditors who together form an integrated engagement team under the direction of the Dutch engagement auditor.

The engagement team of a component can be composed of:

- Dutch auditors;
- Dutch and non-Dutch auditors who together form an integrated engagement team;
- Non-Dutch auditors.

The various aspects of the audit of holding companies can lead to a situation in which integrated teams are formed. All members of the integrated audit team are under the direction and supervision (and responsibility) of the Dutch (external) auditors.

An integrated engagement team can be composed for the:

- Interpretation of the role of the group engagement team;
- Audit of the consolidation;
- Audit of the head office entities; and
- Audit of significant components, especially those with complex audit or accounting issues.

When forming the engagement team, it is important to determine in advance that the team can comply with the requirements for an audit. The auditor should consider issues such as laws and regulations relating to audit documentation, competence, language and any other obstacles.

#### *Standard 260 Communication with those charged with governance and Standard 265 Communicating deficiencies in internal control to those charged with governance and management*

It is crucial that those charged with governance of the company know the obligations under Dutch laws and regulations, including the obligations related to audits. This is particularly important in the first year of the auditor's involvement. Therefore, considering the requirements of Standard 260 and 265, the auditor must specifically communicate:

- Relevant laws and regulations and requirements, in particular the obligations associated with the audit;
- An overview of type of work to be performed on the components' financial information;
- An overview of the nature of the planned involvement of the group engagement team with the work to be performed by component auditors on the financial statements of significant components;
- If there is an integrated audit team; its structure and methods of functioning;
- Significant deficiencies in internal control that have been identified during the audit.

Communications with those charged with governance can be complex for holding companies. It is the auditor's responsibility to give direction in the communication with those charged with governance and to ensure that this complies with Dutch audit standards.

The Dutch audit file should contain audit documentation that shows that these principles are applied.





Koninklijke Nederlandse  
Beroepsorganisatie  
van Accountants



Postbus 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T 020 301 03 01  
[nba@nba.nl](mailto:nba@nba.nl)  
[www.nba.nl](http://www.nba.nl)