



# IN THE PUBLIC INTEREST

## SUMMARY AND MEASURES

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

FUTURE  
ACCOUNTANCY PROFESSION  
WORKING GROUP



# 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 spent.

### **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 an opinion in respect of the annual accounts and an opinion in respect of the management report; 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 conduct. 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, professional skepticism, 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 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 management 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. The proposed measures which contribute to a long term and quality-focus in 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 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 evaluation 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 the 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 reviews (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 auditors 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 professional skepticism 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 professional skepticism 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 auditor 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 auditor. The auditor 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 auditor 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 *audit engagement returns unconditionally to the supervisory board or shareholders* of the company to be audited; not just in a formal, but also in a material sense. The auditor 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 auditors in recent years has often focused on the inability of auditors to predict bankruptcies or uncover fraud. In the opinion of the working group it is important that auditors 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 *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 auditor 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 auditor 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 auditor 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 organisation 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 committee for this purpose, which will report annually. Naturally the working group assumes that the AFM will monitor the introduction of these measures on an ongoing basis as well.

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# SUMMARY OF MEASURES

No.	Measure	Impact on
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.	All accountants
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).	All accountants
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.	All accountants
1.4	Public Interest Entity firms (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 assessments 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 individuals in their decision-making (approval) on partner appointments.	PIE-firms
2.1	A supervisory board will be established in the Dutch top holding of each group that an accountancy organisation with a PIE-licence is part of.	PIE-firms
2.2	The provisions of principle III.1, III.2 and III.3 of the Dutch Code 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.	PIE-firms

No.	Measure	Impact on
2.3	<p>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 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.</p> <p>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 of the accountancy organisation 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 directors. The content of this meeting is aimed at the accountancy organisation.</p>	PIE-firms
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.	PIE-firms
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.	PIE-firms
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.	PIE-firms
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.	PIE-firms
2.8	The board of directors 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.	PIE-firms



No.	Measure	Impact on
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.	All licence holders <sup>1</sup>
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 one 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-audit, 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 positive scores in the last five years before appointment. With PIE-firms, 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.	All licence holders
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 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 part 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 policy makers of the PIE licence holder fits within the set objectives and the policy described under 3.1.	PIE-firms

<sup>1</sup> The term licence holders is used for all audit practices of accountancy organisations with an AFM licence.

No.	Measure	Impact on
3.4	<p>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 supervision 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.</p> <p>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.</p>	PIE-firms
3.5	<p>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 auditor has led to the issuance of a false opinion, 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.</p>	PIE-firms
3.6	<p>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.</p>	PIE-firms
3.7	<p>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.</p>	All licence holders
3.8	<p>The sector investigates the introduction of a pension scheme for the profession which audit partners in 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 be investigated first.</p>	PIE- (all) firms

No.	Measure	Impact on
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 an auditor.	All licence holders
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.	All licence holders
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. Note: The requirements for the annual report have to be changed for the proper functioning of this measure, also see chapter 10.	All licence holders
4.4	The auditor explicitly reports to the supervisory board (or similar supervisory body) on fraud risks under standard 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.	All licence holders
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.	PIE-firms
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.	PIE-firms

No.	Measure	Impact on
4.7	<p>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.</p> <p>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.</p>	PIE-firms
4.8	<p>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.</p>	All licence holders
4.9	<p>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.</p>	All licence holders
5.1	<p>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 of the Dutch version of the full 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.</p>	All licence holders
5.2	<p>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 on the audit. The auditor substantiates how the deployment of these hours, in combination with other audit methodologies, leads to a high-quality audit.</p>	All licence holders
5.3	<p>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 or for a precise time period, 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.</p>	All licence holders
5.4	<p>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 Accountancy Organisations, however, without prescribing the work to be performed in detail. The aim should be to connect with international developments in this area.</p>	All licence holders



No.	Measure	Impact on
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 officer and 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.	All licence holders
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 (i.e. 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 topic in question.	All licence holders
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 skepticism, ethics and morality, which are essential for the performance of the accountant.	All accountants
5.8	Apart from substantial exit qualifications, also binding criteria for the minimum length of education 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.	All accountants
5.9	The profession must actively contribute to the quality of the education by providing experienced and prominent practitioners.	All accountants
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.	All accountants

No.	Measure	Impact on
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.	All auditors
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 fulfils its legal duty, i.e. quality improvement and advocacy of collective professional interest.	All auditors
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.	All auditors
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 on 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.	All licence holders
7.2	Incorporation of a best practice provision into the Code Corporate Governance that the supervisory board must also clearly state 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 AFM findings) and the remuneration compared to the other firms that have been invited to present a proposal.	All licence holders
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.	All licence holders
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 of, and findings of, the auditor, comparable to the model that is used in the United Kingdom. Also see measure 4.3.	All licence holders

No.	Measure	Impact on
7.5	Amendment of sectorspecific 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.	All licence holders
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.	All licence holders
7.7	Adjustment of the audit limits and extension of the definition of PIE's (classification of specific types of organisations which will fall under the scope) on the basis of the results of the research to be done.	All licence holders
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.	All accountants
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.	All licence holders
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.	Alle accountants
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.	All firms

### **Colophon**

**Text:** Future Accountancy Profession Working Group

**Design:** Verheul Communicatie, Alphen aan den Rijn

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