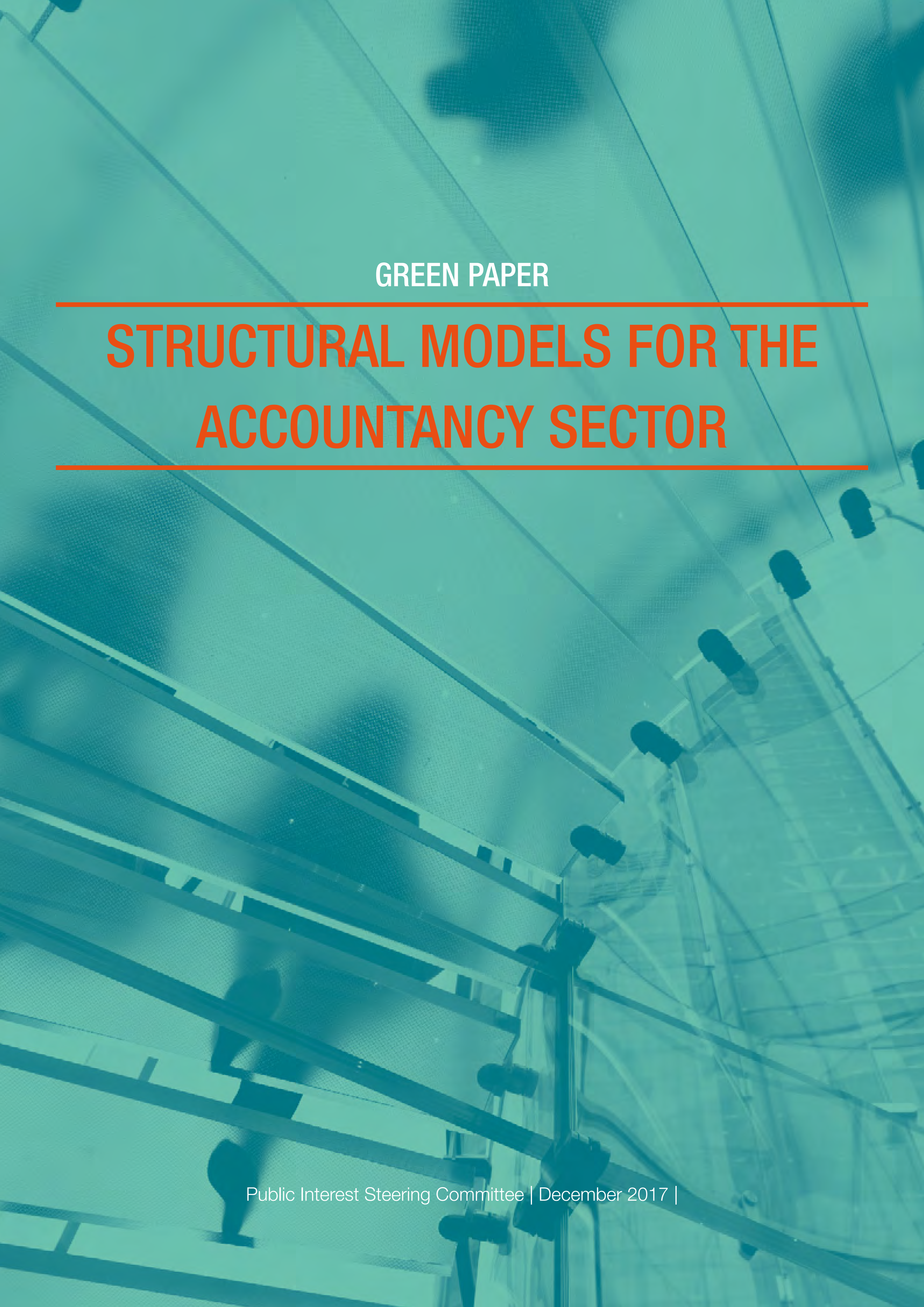


GREEN PAPER

STRUCTURAL MODELS FOR THE ACCOUNTANCY SECTOR

Public Interest Steering Committee | December 2017 |

Public Interest Steering Committee

Paul Dinkgreve (SRA)
Egbert Eeftink (KPMG)
Ad van Gils (PwC)
Pieter Jongstra (NBA), voorzitter
Peter Hopstaken (Mazars)
Rob Lelieveld (EY)
Roland Ogink (werkgroep niet-OOB)
Marco van der Vegte (Deloitte)
Berry Wammes (NBA)

FOREWORD

Confidence in the accountancy sector has not yet recovered and implemented quality measures still need to prove their worth in practice. Continuous dialogue with stakeholders is an essential part of the improvement process. This green paper attempts to contribute to this process with an initial inventory of research questions and an analysis concerning the effect that existing and alternative structural models in the accountancy sector have on audit quality. This evaluation of structural models is part of the Audit Change Agenda (which was established in June 2017) of the Netherlands Institute of Chartered Accountants (NBA).

Approach
As part of the improvement process and the subsequently formulated NBA Audit Change Agenda, the NBA published a sector root cause analysis into the drivers of audit quality in November 2017. This green paper examines the relationship between these drivers and structural models encountered in the accountancy sector: namely, the business model, the partner model and the earnings model.

The green paper does not draw any conclusions, but is intended to invite a broader group of stakeholders to participate in discussions about structural models when it comes to audit quality and the improvement process in the sector. Reactions to this green paper will be incorporated into a white paper, which can include conclusions and specific recommendations.

Limitations
The evaluation was carried out in a relatively short period of time so discussions could be quickly started with the various stakeholders. As a result, the paper is somewhat limited in terms of its scope and specificity (see appendix 4 for the research explanation). So it is probably a good thing that the Foundation for Auditing Research has already started follow-up research.

Research areas
The analysis in this green paper suggests improved governance concerning the appointment and performance of accountants could have a positive effect on audit quality. There is room to further examine this improvement within specific sectors. Bearing in mind experiences in New Zealand and the United Kingdom, one could conduct experiments in several sectors in the Netherlands by giving the supervisory body a formal role in the process for appointing accountants and monitoring their activities (and reports). The effects of this approach could then be evaluated after a few years.

In addition, one could examine how greater transparency by accountancy organisations, concerning investments in quality and fees paid during the audit, could help to create better checks and balances and gain a better insight into the methods adopted by accountants.

Invitation
We kindly invite you to respond to this document. Is our analysis accurate and complete, or do you think something needs to be added? Please feel free to let us know. You can share your reactions with us until 31 March 2018 by sending an e-mail to consultatie@nba.nl. A round table will then be organised. All reactions will be jointly incorporated into the white paper, which will be published in the spring of 2018.

Finally, we would like to take this opportunity to thank all stakeholders who were prepared to share their thoughts on this matter.

NBA Public Interest Steering Committee,
December 2017

MANAGEMENT SUMMARY

This green paper is part of the NBA Audit Change Agenda and evaluates the potential effects that structural models used in the Dutch accountancy sector have on the quality of audits. These structural models are as follows: the business model, the partner model and the earnings model.[1] The green paper thus builds further on results from the sector root cause analysis published by NBA on 13 November 2017. The green paper is clearly intended as a discussion document and not as a scientific paper. As a result, no conclusions have been drawn. The underlying activities were carried out within a relatively short period of time and are somewhat limited in terms of scope and specificity. A research explanation has been included in appendix 4.

Design

This green paper not only evaluates existing models, but also highlights potential alternative models. On the one hand, the aim is to investigate the strengths and risks of existing models and their potential consequences for audit quality. On the other hand, the aim is to identify the strengths and risks of any alternative models and determine whether they could further improve audit quality. The green paper does this by relying on practical experiences, renowned scientific literature and discussions with a wide range of stakeholders, which includes members of parliament, government bodies, professional bodies in various sectors, supervisory directors, accountants, scientists, employers, investors and supervisory bodies.

Context

Various measures have been implemented since 2006, including the Accountancy Organisations Supervision Act (Wta), the separation of audits and advice in assignments for Public Interest Entities (PIE's), mandatory firm rotation and 53 improvement measures initiated by the sector in 2014 as part of the 'In the public interest' (in het publiek belang, IHPB) report. The effect of some of these 53 measures is not yet clear because they were only implemented a short while ago (for example, the introduction of a supervisory board) or are only expected to present tangible results after a few years (measures aimed at changing culture and behaviour).

The sector is under intensive supervision by way of internal and external dossier reviews. For example, new external dossier evaluations are being carried out by the Netherlands Authority for the Financial Markets (AFM) and are likely to be published in 2019 (next-5 PIE accountancy organisations) and 2020 (big-4 accountancy organisations).
The AFM, the Second Chamber (the Dutch House of Representatives) and the Accountancy Monitoring Committee (MCA) have all said that the intended quality improvement is taking too long. The MCA also said it expected sector dilemmas (also in relation to structural models) to be addressed in the improvement process. After publishing the 'In the public interest' report, the NBA compiled its Audit Change Agenda which aims to accelerate and intensify the change process all throughout the sector.[2]

Leads from the root cause analysis

The NBA sector root cause analysis[3] (13 November 2017) offers an insight into the drivers of audit quality in relation to individual accountants, audit teams or audit assignments. It also offers an insight into (quality-related) policy characteristics that influence these drivers at organisation level. The sector root cause analysis was carried out after sharing, discussing and further analysing the individual root cause analyses of the four main audit firms. These firms shared information about the process used for their root cause analyses, the shortcomings they encountered, their 'best practices' as well as the identified drivers and root causes. This not only involved examining root causes within dossiers, but also firm-related aspects that could have an impact on audit quality.

[1] Although market forces were identified as a wicked problem by the Accountancy Monitoring Committee in its first report, this issue has not been addressed in this green paper. However, the issue has been partly addressed in the European Commission's report (7 September 2017) entitled 'Monitoring developments in the EU market for providing statutory audit services to public-interest entities'. This report concludes that, based on data concerning market concentration in member countries, conclusions could not be drawn about the effectiveness of competition in the market (positive or negative).
[2] Audit Change Agenda, URL: https://www.nba.nl/globalassets/projecten/in-het-publiek-belang/veranderagenda/veranderagenda-audit.pdf
[3] To the heart of the matter - a sector analysis into the drivers of audit quality, URL: https://www.accountant.nl/globalassets/nba/toekomstdebat/ sectoranalyse_drivers_controlekwaliteit_november_2017.pdf

Findings of the sector root cause analysis were applied to the structural models and used during their analysis. This helped to increase the relevance of the analysis. The NBA sector root cause analysis identified the following 10 drivers:

1 Stability of the team;
2 Portfolio size and composition;
3 Team dynamics and diversity;
4 Partner and manager involvement;
5 (Professional) knowledge and its implementation;
6 Critical professional attitude and critical judgements;
7 Appropriate process management;
8 Comfort needed to conduct a robust dialogue;
9 Use of experts and other accountants;
10 Maturity of the audited organisation.

Of the above mentioned drivers, drivers 2, 3, 4, 8, 9 and 10 can be linked to the structural models via the relevant organisation aspects.

Strengths and risks of existing structural models
This green paper defines, describes and evaluates existing structural models that are commonly used at international level:

- **Existing business model: multi-disciplinary organisation**

  This describes how the profession has developed into a partnership between accountants and specialised advisers. The root cause analysis shows that the existing collaboration model for audits and advice within a single organisation does not reduce quality and that effective collaboration with specialists plays an important role in audit quality. Scientific literature also fails to show that using the existing model has a negative impact on the quality of audits. Some scientific literature showed that collaboration can lead to high audit quality because complex audits require market-specific expertise. Nonetheless, certain risks were identified when this model was being evaluated, which included compromised neutrality and objectivity on the part of accountants. Existing laws and regulations have been used to take various measures to reduce these risks (see appendix 1), like the legal ban on offering advice to PIE audit clients, the restriction of advisory activities in all other statutory audits, rotation of auditing assignments and partners, a ban on commercial incentives, introduction of a supervisory board at holding level and the need for accountants to possess the majority of voting rights in accountancy organisations.

- **Existing partner model:** **partners simultaneously fulfil the role of professionals, owners and entrepreneurs in accounting organisations**

  The partner model is based on a cost-sharing company structure. Although mergers and further growth have caused these accountancy organisations to adopt various other legal forms, a lot of them have remained unchanged in essence. At the same time, partner organisations are encountered in different shapes and sizes. The root cause analysis showed that accountancy organisations must possess the 'checks and balances' needed to safeguard quality as well as the public interest. Scientific literature is ambiguous and warns about the risk of complexity as organisations grow, but also says that the partner model can lead to higher audit quality (due to the professional nature of accounting activities). The risks associated with this model include: not enough investment in quality and excessive focus on audit clients rather than the public interest. Existing laws and regulations have been used to take various measures aimed at reducing risks within the partner model, like management that primarily focuses on administrative tasks and the introduction of a supervisory board with far-reaching authority.

- **Existing earnings model:** **accountancy organisation is paid by the audited organisation**

  In terms of the earnings model, an analysis was carried out into how accountants interact with the companies they audit, as well as the accompanying strengths and risks for audit quality. Although risks are managed via various safeguards, the root cause analysis showed that it is not always easy for accountants to converse with clients about (extending) deadlines and extra work. Other risks associated with the model include excessive focus on financial interests and an insufficiently critical attitude. For instance, risks will be encountered if there are shortcomings in the governance and internal controls at the audited organisation. Existing laws and regulations have primarily implemented measures at PIE organisations in an attempt to minimise these risks. In this regard, the main measure involves a properly functioning audit committee, which plays a leading role in selecting and appointing accountants and monitoring their performance.

Strengths and risks of alternative structural models
The Steering Committee asked itself whether alternative models are available to further mitigate existing risks. In doing so, the aim was to compare these alternatives with the current situation, including their effect on audit quality. All described alternative models were mentioned within the sector and during discussions with stakeholders and can also be found in scientific literature.

- **Alternative business model:** **audit-only**

  An alternative to the existing business model is a model where accountancy organisations only perform audits and no longer collaborate with advisers. This can lead to greater (perceived) neutrality and objectivity on the part of accountants (because there is no commercial or financial pressure from other disciplines). On the other hand, actual neutrality could decrease; an audit-only model means specialised external advisers will need to be used, who themselves serve a variety of clients. This will raise issues concerning the neutrality of these external specialists, but will also increase costs. In addition, another quality-related risk could also be created; audit quality could suffer in the absence of (continuous) access to specialised knowledge about IT, data analysis, cyber-security, real estate valuation, financial instruments, actuarial calculations and fiscal compliance. Furthermore, if accountancy organisations operate on a smaller scale, this could have a negative impact on their investment capacity. Finally, it is unclear how audits at multinational companies would be affected if Dutch accountancy organisations could no longer participate in international multi-disciplinary networks.

- **Alternative partner model: 'corporate'**

  An alternative to the existing partner model is a model where partner organisations change into organisations with a more corporate management approach. The model offers greater control to management and less control to partners and external shareholders. This could improve managerial effectiveness because there would be a clearer distinction between managers and people in the field. In addition, external shareholding or ownership could allow more capital to be attracted for investments in technology and quality. But this also has a down-side. Namely, that it may reduce the involvement of professionals in decisions made by the organisation. Furthermore, shareholders, directors and accountants may be tempted to take greater risks in their respective roles because there is a dividing line between audit-related responsibility and ownership of the organisation. The master-apprentice structure could start to fade away and have a negative impact on people's ability to learn the ropes. These developments could cause the profession to become less appealing. Finally, the Wta will need to be modified because, at this moment in time, it stipulates that control within accountancy organisations must primarily be in the hands of accountants.

- **Alternative earnings model: statutory audits carried out by the government**

  An alternative to the existing earnings model is a model where statutory audits are no longer carried out by market-based companies, but by the government. This can lead to greater neutrality and objectivity among accountants; the role of commercial incentives will be neutralised and it will no longer be necessary to appoint accountants. But quality-related risks could also be created; it is unclear whether the government actually possesses the specialised knowledge needed to perform audits at large and complex organisations, or can acquire it in the short-term. There may be fewer incentives for innovation, efficiency and quality if they are not compelled by market forces. In addition, it is unclear whether the government possesses the capacity and international network needed to perform statutory audits at large organisations that also have entities abroad (at this moment in time, such organisations can be audited thanks to the international networks of accountancy organisations). Finally, if statutory audits were to be carried out by the government, the government would also be responsible for liability and claim-related risks.

Each of these alternative models appears to differ from existing international practice. The alternative models could also have far-reaching implications for services in the Dutch accountancy sector. This could come at the expense of an equal international playing field, which is extremely important to business climate in the open Dutch economy.

Experiences abroad
Comparisons abroad show that the examined Dutch structural models are common at international level. All large accountancy organisations are part of multi-disciplinary organisations and belong to an international network. In terms of the partner model, there are a variety of legal structures at international level, but the existing partner model is common and, for example, no stock-market-listings are encountered. As far as the earnings model is concerned, governments in some countries play a role in tenders for audits in the public sector.

Legal implications
It is unclear what the legal implications are of the examined alternatives and how the discussed alternatives stand up to European laws and regulations. This green paper does not examine to what extent changes to, for example, the business model in the Netherlands can be made without breaching European legislation (including competition law) and how effective Dutch legislation can be extra-territorially (foreign audit firms could offer services in the Netherlands). With regards to the partner model, government influence on the legal and organisation structure of private companies was not examined and how potential modifications would stand up to requirements in European and Dutch legislation stipulating that ownership and control of accountancy organisations should primarily rest in the hands of chartered accountants. As a result, further investigation is needed from a legal perspective.

To summarise
The evaluation in this green paper:
- does not contain causal relationships between structural models and shortcomings in quality;
- shows that potential solutions for risks in existing models are likely to be accompanied by new risks with an unclear impact;
- is based on incomplete scientific research and its outcomes are not unequivocal;
- contains international models that do not fundamentally differ from commonly used models in the Netherlands;
- contains many measures, for improving audit quality and mitigating risks, which have already been implemented since 2014.

In any case, the solution for improving quality appears to involve a variety of measures, which reinforce each other and lead to a change in culture and behaviour. This includes reinforcing drivers of audit quality presented in the root cause analysis. These drivers are being reinforced by existing and recent measures, some of which still need to demonstrate their effectiveness. In addition, it involves setting up and maintaining a sector-wide and continuous learning process, using improvement measures that apply to accountants as well as organisations. In this case, changes in culture and behaviour are essential.

CONTENTS

1. INTRODUCTION

This green paper is part of the Audit Change Agenda, which was compiled in June 2017 and is being implemented by the NBA Public Interest Steering Committee. The Public Interest Steering Committee was founded in January 2017 by the NBA and consists of managerial representatives from accountancy organisations and the NBA.
The change agenda serves as a multi-year agenda for the sector and is aimed at intensifying and reinforcing measures identified in the report entitled 'In the public interest' (IHPB, September 2014).

The Audit Change Agenda includes the publication of green papers to encourage further discussion within the sector and with stakeholders. A green paper about audit quality was published in June 2017. In November 2017, a sector root cause analysis was published about the drivers of audit quality.

This green paper evaluates existing structural models within the accountancy sector and discusses potential alternatives. The structural models in this report are as follows: the business model, the earnings model and the partner model.

1.1 To the heart of the matter

What is the essence of the accountancy profession? The NBA asked this question to members and stakeholders at the end of 2016. The response: to improve the reliability of information used to make decisions within society. This means accountants serve as an intermediary between suppliers of this information and users of this information. In doing so, accountants are acting in the public interest. This green paper examines the circumstances under which accountants can honour the essence of their profession to the best of their abilities, within frameworks established for professionalism, integrity, objectivity, expertise, diligence and confidentiality[4].

1.2 A dynamic sector

One thing is certain; the Dutch accountancy sector has drastically changed since 2006. Public supervision of accountancy organisations and individual external accountants was further specified with the introduction of the Accountancy Organisations Supervision Act (Wta) and the Accountancy Organisations Supervision Decree (Bta) in 2006, [5]. Wta and Bta aim to "safeguard broadly supported and justifiable public confidence in judgements made by accountants"[6]. In January 2013, audits at public interest entities (PIE's) became subject to mandatory separation of audit and advisory activities. In the meantime, an EU ordinance also applies to financial years starting after 16 June 2016 and prescribes mandatory rotation of accountancy firms at PIE's. In addition, the professional association has also implemented new rules, such as the standards and professional ethics decree, the decree concerning neutrality of accountants in assurance assignments and other detailed rules (quality control systems and continuing education and detailed rules concerning auditing and other standards).

Partly in response to critical AFM findings about the quality of statutory audits in financial years 2012 and 2013, the sector published a report entitled 'In the public interest' in 2014, which announced 53 measures for improving the quality of statutory audits and restoring public confidence in the sector. These measures were welcomed by the Second Chamber and other stakeholders. Most of these measures were then implemented in the years that followed. However, the implementation process has not yet been completed; the impact that many measures have on audit quality will only become apparent over a longer period of time[7].

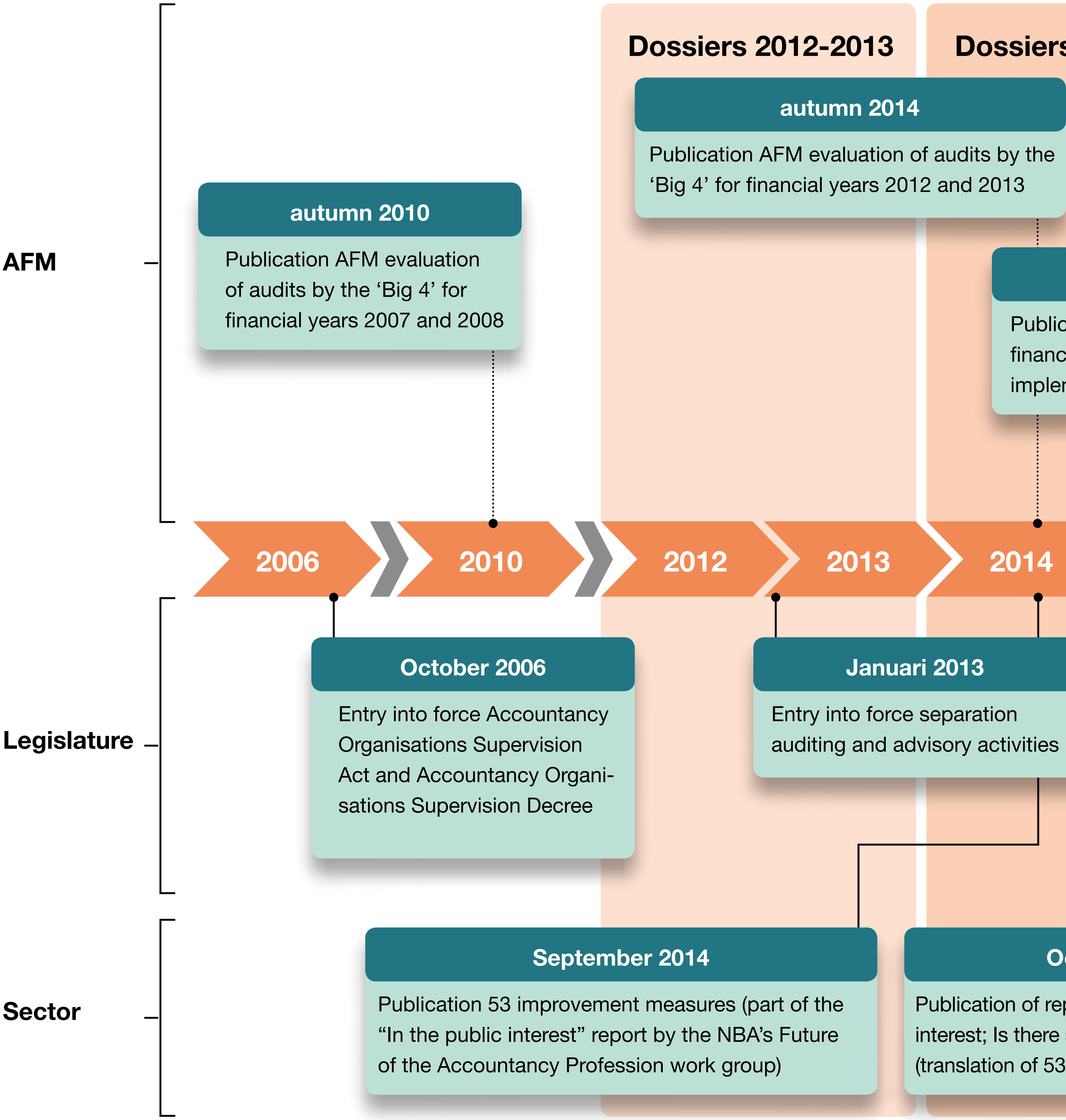
[4] Verordening gedrags- en beroepsregels accountants (ordinance concerning behavioural and professional rules for accountants), chapter 2, article 2
[5] To supplement already applicable rules concerning the accountancy profession.
[6] Explanatory memorandum, Accountancy Organisations Supervision Act, Parliamentary paper 29658, no. 3
[7] Minister of Finance at the time, Jeroen Dijsselbloem, wrote about this to the Second Chamber on 18 October 2017: "There is a comprehensive package of measures - from the sector itself, in European rules and in the legislative proposal for additional measures for accountancy organisations - which must lead to a lasting improvement in the quality of audits. The package deserves the opportunity to prove itself before new additional measures are considered." (Parliamentary paper 34677, no. 17)

At the end of 2016, the Accountancy Monitoring Committee (MCA) published an initial report concerning the implementation and effectiveness of implemented measures. The MCA ordered that, in addition to the 53 measures, sector-specific dilemmas should also become topics for debate - not among individual accountants, but within the organisations where they work. This order was then addressed in the Audit Change Agenda, which the NBA published in June 2017.

Figure 1 on the following page shows the time-line for the above mentioned legal measures, AFM investigations and sector initiatives and how they succeed each other and overlap.

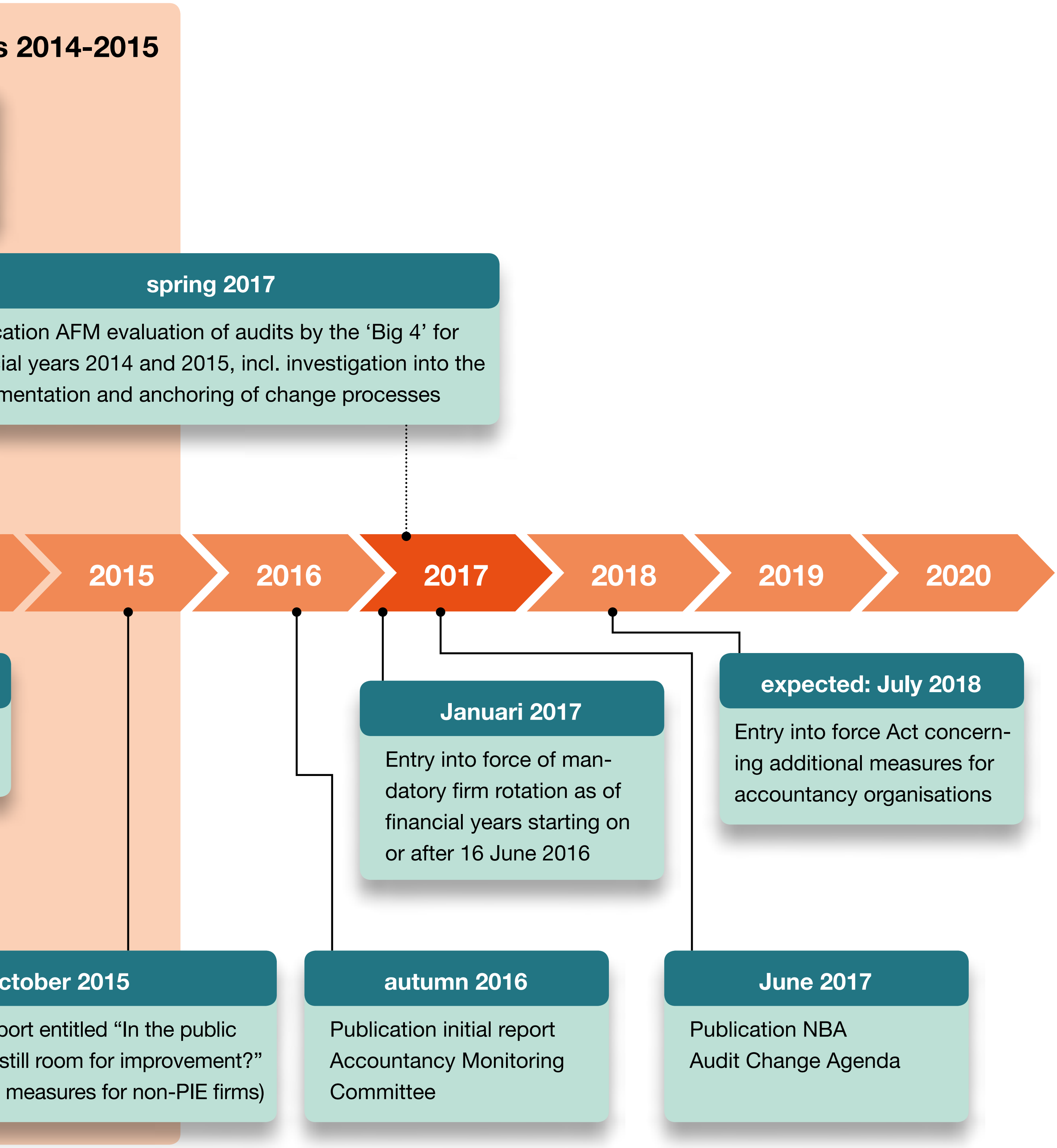
[8] The Accountancy Monitoring Committee is an initiative by the accountancy sector and is part of the package of 53 measures (September 2014)
[9] Initial Report Accountancy Monitoring Committee: Veranderen in het publiek belang (changing in the public interest), 1 November 2016

Figure 1: Cohesion between several recent initiatives in the Dutch accountancy sector, taken by the AFM (top), legislator (middle) and sector (bottom)



Explanation

The time-line in figure 1 shows that the accountancy sector has been subject to many investigations and implemented many measures, in recent years. The time-line also shows that a few of the most drastic developments in the accountancy sector (like the 53 improvement measures, separation between auditing and advisory activities and mandatory firm rotation among PIE's) have yet to prove their effectiveness in practice. Cultural and behaviour changes are also taking time. In addition, some measures still need to come into force from a legal perspective (Legislative proposal for additional measures for accountancy organisations).



1.3 Sector root cause analysis - drivers of audit quality

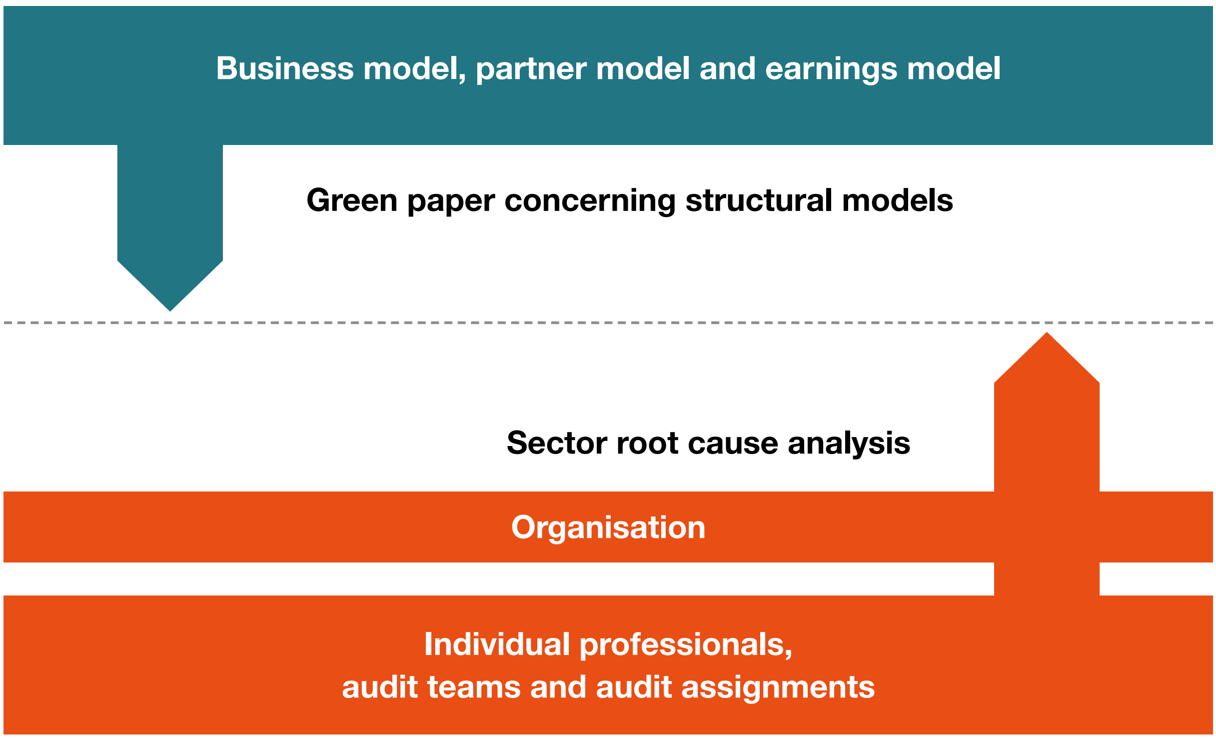
On 13 November 2017, the NBA published a sector-wide root cause analysis as part of the Audit Change Agenda[10]. This was used to identify ten drivers of audit quality:

1 Stability of the team;
2 Portfolio size and composition;
3 Team dynamics and diversity;
4 Partner and manager involvement;
5 (Professional) knowledge and its implementation;
6 Critical professional attitude and critical judgements;
7 Appropriate process management;
8 Comfort needed to conduct a robust dialogue;
9 Use of experts and other accountants;
10 Maturity of the audited organisation.

The sector root cause analysis offers an insight into the drivers of audit quality in relation to individual accountants, audit teams and audit assignments. The root cause analysis also shows how these aspects are influenced by policy at organisation level. The findings of the sector root cause analysis were then used to analyse the structural models (this green paper explores drivers 2, 3, 4, 8, 9 and 10 in relation to the structural models). Conversely, this green paper also examines whether existing structural models present risks that influence drivers of audit quality (see figure 2).

The structural model analysis is thus a continuation of the sector root cause analysis (and also part of the Audit Change Agenda).

Figure 2: Relationship between structural models in this green paper and the performed root cause analysis



[10] URL: https://www.nba.nl/nieuws-en-agenda/nieuwsarchief/2017/november/Succesfactoren-controlekwaliteit-in-kaart-gebracht/

1.4 Research design

This green paper evaluates the structural models used by accountancy organisations in the Netherlands in light of the sector-wide root cause analysis. The evaluation also uses available scientific research. These structural models were further specified by the Steering Committee because terms used in the public debate were not always unequivocal. The following definitions for structural models have been used in this green paper:

- Business model: the multi-disciplinary organisation;
- Partner model: partners simultaneously occupy the role of professionals, owners and entrepreneurs;
- Earnings model: the accountancy organisation is paid by the audited organisation.

Aim
This green paper aims to identify existing and alternative structural models for accountancy organisations and compare them for aspects that are relevant to the performance of external accountants in accountancy organisations. This is important because these models have characteristics that contribute to the quality of statutory audits, as well as characteristics that could endanger this quality. It is important to create appropriate conditions, which allow accountants to function effectively.

Research questions
While pursuing this aim, this green paper will address the following research questions in relation to the business model, the earnings model and the partner model:

1. What are the characteristics of the model within the Dutch accountancy sector?
2. Which causes in accountancy organisations are related to this model, when it comes to drivers of audit quality?
3. What are the strengths and risks of the existing model with regards to audit quality?
4. What does scientific literature say about the performance of the model with regards to audit quality?
5. How has the model been experienced abroad?
6. Which safeguards aim to mitigate risks and what is the intended effect?
7. Which alternative model is possible and what are the strengths and risks concerning audit quality?

The Steering Committee decided to read several pieces of scientific literature research in order to gain an initial insight into the results generated by scientific research. These studies summarised what kind of scientific research has been carried out into accountancy-specific issues. One of the referenced studies involved literature research by DeFond, M. & Zhang, J. (2014) “A review of archival auditing research”, which was published in 2014 in the Journal of Accounting and Economics. The authors used over 500 scientific studies to summarise everything that is known about - for example - the structural models discussed in this green paper. Other scientific literature was also used when writing this paper and has been discussed in the respective chapter.

1.5 Follow-up

The Steering Committee has published this green paper for three reasons:

1. To improve insight into dilemmas encounter within existing structural models in the accountancy sector.
2. To create a dialogue with stakeholders about the risks associated with these structural models and safeguards that help to mitigate them.
3. To evaluate the strengths and risks of existing structural models compared to alternative models.

This green paper thus invites a wide range of stakeholders to start a dialogue: users of annual accounts, accountants, audited companies, politicians, supervisory bodies and the public in general. That is why the Steering Committee has included a few questions at the end of each chapter.

2. BUSINESS MODEL

Multi-disciplinary organisation

2.1. Model description

Many accountants and accountancy organisations are part of an international network, where assurance and advisory activities are carried out in addition to statutory audits. In certain cases, auditing and advisory assignments are carried out for the same client. This is not permitted for PIE's.

The Ordinance concerning the professional profile of chartered accountants (which expired on 29 September 2015) and its successor, namely the Ordinance concerning professional profiles, highlighted the pluriformity of the profession. Accountants are trained to be experts in the field of audits, but also possess expertise when it comes to business economics (in relation to fiscality, internal and external administration, internal controls, information systems and reporting). This expertise is important when performing audits. However, this expertise means accountants are also being deployed as advisers.

From an historical perspective, the fact that accountants perform audits while also offering advisory services to clients can be explained by the specific needs of these clients. For a long time, it seemed to make sense that external accountants would use experiences gained during statutory audits to also offer advice about organisational improvements. In certain areas, accountants are still best placed to offer advice because of their specific expertise; for instance, when it comes to internal control and reporting.

As far as the business model of accountants is concerned, the seasonal nature of the auditing professional means organisations can become more resilient by offering advice while also performing audits. By performing auditing assignments as well as advisory assignments, sufficient revenue can be generated outside the traditional auditing season and accountancy organisations can become less reliant on their auditing division (diversification). Over time, firms have developed more and more specialisations depending on the size of their organisation. These departments specialise in fields such as reporting advice, due diligence activities, valuation advice, fiscal advice and advice relating to actuarial services, internal control and IT. This development is closely accompanied by increasing complexity in the operational management of audited organisations, increasing and more complex laws and regulations and in-depth specialist know-how when addressing such aspects in annual account audits. These days, specialised non-accountants are also used when performing statutory audits at large, complex organisations.

At the same time, firms have developed this in-depth know-how via advisory divisions that offer advice in areas well outside accountants' original area of expertise. Quality checks, carried out in markets where specialist advice is provided, also help to safeguard the quality of expertise used in statutory audits.

This has caused large accountancy organisations (not restricted to PIE organisations) to develop into multi-disciplinary organisations that simultaneously offer auditing and advisory services. Recent annual reports at large accountancy organisations show that approximately 40% of activities in the Netherlands relate to assurance. The remaining 60% consists of compliance-related activities and advisory services. At international level, the share of assurance activities in organisation networks is approximately 2% lower (on average) than in the Netherlands. In this case, the vast majority of advisory turnover is realised by offering services to customers where accountancy organisations do not perform statutory audits. There is a distinct absence of data about this for the non-PIE segment. The AFM report entitled 'Sector in beeld - Marktanalyse accountantsorganisaties 2010 – 2014' (Insight in to the sector - Market analysis of accountancy organisations, September 2015) shows that,

of the total fees charged by accountancy organisations to customers where they performed statutory audits in 2014, 60% related to the statutory audit and 19% related to assurance services separate from the statutory audit. Of the total remuneration, 21% related to advisory activities.

Conversely, one can examine the share of advisory turnover realised by firms at clients where they perform advisory assignments as well as statutory audits. The AFM report does not contain this information. Recent transparency reports show that, at the four largest firms, an average of 8% (this percentage varies between 5% and 14% depending on the firm) of advisory turnover was realised at organisations where accountancy organisations perform statutory audits. Other advisory turnover (92% on average) originated from clients who are not also audit clients.

2.2. Link between the business model and drivers of audit quality

The sector root cause analysis was used to identify two (of the ten) drivers of audit quality that are influenced by aspects relating to the business model (see figure 3). These drivers are influenced by rganisation-related aspects that relate to several characteristics of the business model.

The root cause analysis showed that a multi-disciplinary audit team and direct access to appropriate specialists can help to improve audit quality. However, the root cause analysis also showed that audit quality can be improved if the collaboration between accountants and specialists is based on a clear set of conditions. But sufficient capacity must also be reserved. Other drivers identified in the sector root cause analysis either relate to one of the other structural models or to individual organisations. The latter have not been further addressed in this green paper.

Figure 3: *Overview for drivers of audit quality and organisation-related aspects that influence these drivers, within the business model (source: NBA sector root cause analysis, 13 November 2017)*

	Identified driver of audit quality	**Organisation-related aspect that influence drivers of audit quality**
Business model	Team dynamics and diversity. *(driver 3)*	• Culture-related policy. • Diversity-related policy. • Collaboration between accountants and specialists with multi-disciplinary organisations.
	Partner and manager involvement. *(driver 4)*	• Financial management and turnover objectives. • Non-financial objectives concerning partner and manager involvement. • Tone from the top and role model behaviour.
	Use of experts and other accountants. *(driver 9)*	• Collaboration model between accountants and specialists within multi-disciplinary organisations. • Learning & Development for accountants and experts. • Policy for client/assignment acceptance and continuation, for both auditing and advisory assignments. • Neutrality policy and procedures.

2.3. Scientific research [11]

Over the past few decades, scientific research has been carried out to see how audit quality is influenced if organisations perform auditing activities as well as advisory activities. These studies primarily focused on the effects of supplying advisory services to audit clients (both advisory and auditing activities offered to clients). The Steering Committee examined four journals that featured overviews of relevant scientific research carried out in recent decades. The research in question was as follows:

- Bouwens, J. (2017) Wat is de relatie tussen accountantscontrole en advies? Een overzicht van de bestaande literatuur. Cambridge University / Foundation for Auditing Research.

- Sharma, D.S. (2014). Non-audit services and auditor independence. In: The Routledge Companion to Auditing (red. Hay, Knechel, Willekens)

- DeFond, M. and Zhang, J. (2014) A review of archival auditing research. In: Journal of Accounting and Economics.

- Schneider, A., Church, B.K. and Ely, K.M. (2006) Non-Audit Services and Auditor Independence: A Review of the Literature. In: Journal of Accounting Literature

These overviews show[12] that existing scientific research offers little evidence to support the thesis that audit quality deteriorates if clients are offered both auditing and advisory services. However, DeFond & Zhang conclude that the combination has an impact on the perception of onlookers.

For instance, Bouwens says audit quality is influenced as follows when auditing and advisory services are combined: “The inventory shows little evidence of a quality-reducing effect on the audit. In many cases, research shows that quality can be improved if the same firm performs both auditing and advisory activities. This advantage can be attributed to the transfer of knowledge, where accountants benefit from the knowledge of colleagues who are providing advice to the same organisation.”

However, Sharma says there is no evidence to support either the proponents or opponents of combing auditing and advisory services: “Regulators and policy makers need to demonstrate that non-audit services actually cause auditors to impair their independence and this has been lacking. Likewise, the profession needs to provide compelling evidence that non-audit services do not harm but enhance audit quality and efficiencies. Neither side has provided conclusive proof.” In addition: “Research evidence suggests governance mechanisms such as audit committees can provide sufficient oversight of non-audit services and audit quality, thus mitigating non-audit services threats to auditor independence.”

Researchers DeFond & Zhang also said there is no unequivocal proof: “The large majority of studies employing output-based proxies find no evidence that non-audit services impair audit quality. In contrast, most studies that examine perception-based proxies conclude that non-audit services impair quality. (….) A striking finding in this literature is that some non-audit services actually improve audit quality, consistent with knowledge spillovers.”

Finally, Schneider, Church and Ely concluded that: “One consistent finding across three stakeholder groups (users, auditors and managers) is that NAS can impair independence in appearance but does not seem to impair independence in fact.”

[11] This green paper refers to relevant scientific publications that are known to the Steering Committee or have been brought to its attention. In no way does this overview claim to be complete or conclusive.

[12] On the understanding that results of the various studies depend on the exact specifications of each study and that results are not entirely consistent in every study.

Existing scientific research does not show a negative effect on audit quality if auditing and advisory activities are performed by a single organisation. Most of the scientific research known to the Steering Committee actually points to a positive effect. Further scientific research (e.g. by the Foundation for Auditing Research) can help to improve insights into the relationship between the business model and audit quality[13].

2.4. Experiences abroad [14]

At international level, we see that all major accountancy organisations belong to multi-disciplinary organisations and are part of international networks. To the best of the Steering Committee's knowledge, the audit-only model is not implemented. The multi-disciplinary business model is standard in Europe as well as the United States. Laws and regulations, as well as market forces, have not resulted in different business models at international level, such as audit-only firms. However, certain countries have introduced neutrality-related requirements. For instance, the Netherlands implements the strictest neutrality requirements in the world (ban on advisory service at PIE's). We are only aware of a few countries that impose additional requirements at organisation level. For instance, in France and Denmark, the legal structure and governance of individual entities that offer different types of services must be clearly separated. This requirement was also in effect in Italy, but was lifted recently.

The earnings model chapter (see page 34) examines the example of Audit New Zealand in greater detail. In New Zealand, the government has proposed this organisation as an alternative to private accountancy organisations. It is worth noting that the government established this alternative as a multi-disciplinary organisation which, besides annual account audits, also offers a variety of advisory services to auditing organisations: "Our assurance specialists are engaged by public sector entities to carry out work additional to annual audits. They have a wealth of expertise in subjects such as procurement, governance, and risk, asset, contract, and project management. Their advice and support adds value not just to public entities seeking added assurance, but to our own staff who consult these specialists as part of annual audits."[15] The set-up thus appears to be somewhat similar to that of the Auditdienst Rijk (Governmental Audit Department). This organisation was also set up under the initiative of the government and, on the one hand, issues auditor's reports for the accounts of, for example, government agencies. On the other hand, it performs demand-based assignments to meet the specific needs of Ministry leaders.

Research into how the profession is organised in other countries has not shown fundamentally different models, which lead to an increase in audit quality.

2.5. Strengths and risks of the existing model

Although the root cause analysis shows that multi-disciplinary organisations can have a positive effect on the quality of statutory audits, this model is also accompanied by risks. That is why, besides strengths, figure 4 also weighs up the risks of the current international model. This inventory is based on an in-house analysis of the existing model, experiences in practice and insights from examined scientific literature. These strengths and risks have been explained in greater detail on the following pages.

[13] In the meantime, the Foundation for Auditing Research has started a Joint Working Group which will conduct research into, for example, the future business model of accountancy organisations.
[14] The exact approach and practical experiences in other countries can be explored further, and falls outside the scope of this green paper.
[15] URL: https://www.auditnz.govt.nz/who-we-are/welcome-to-audit-nz

Figure 4: Overview of strengths and risks of the existing business model

Strengths

1. Increasing complexity at audited organisations and - due to new legislation - mandatory deployment of specialists from other disciplines who, besides the knowledge needed to perform annual account audits, also possess additional expertise.

2. Development of insights about sectors, from various perspectives, which allows the risk-related insights of auditors (concerning the relevant audit) to be improved.

3. International network and multi-disciplinary approach offer combined investment capacity and knowledge. There are sizeable investments in, for example, data analysis which only appear to be worthwhile if they can be used for advisory as well as auditing purposes.

4. Multi-disciplinary organisations are also innovative outside their auditing divisions, which means technology can be used for annual account audits once it has proven its worth in other areas.

5. Business units grow at different speeds in different sectors and periods. The multi-disciplinary model helps to spread risk and ensures continuity.

6. The appeal of accountancy organisations as employers can be increased when employees have more opportunities for personal development in different disciplines and within various sectors.

7. Auditing divisions can have a positive impact when the interests of the public and stakeholders are being considered in other disciplines.

Risks

1. Combing auditing and advisory activities for the same client can compromise the neutrality and objectivity of the auditing accountant.

2. Strict and internationally divergent neutrality requirements lead to a risk of violation. The bigger the advisory division, the higher the likelihood of violating divergent (international) neutrality rules.

3. The combination of auditing and advisory activities can result in a more commercial culture. Tension may be encountered if wide-ranging profits are encountered in different disciplines. This can come at the expense of partner commitment and quality.

4. An increase in advisory activities can cause the management to pay less attention to auditing activities and/or investments and employees may primarily be deployed to develop advisory activities.

5. The organisation's profile within society could become increasingly unclear as more and more advisory activities are carried out.

Explanation

The multi-disciplinary model complies with several pre-requisites concerning quality and collaboration between accountants and specialists:

- Direct access to relevant specialists, on a formal and informal basis;
- Specialists familiar with internal procedures, dossier content and quality requirements, which makes it easier to safeguard quality;
- Organisation-wide programmes aimed at culture, behaviour, evaluation and remuneration, which means accountants as well as specialists are aware of applicable norms and values;
- Organisation-wide implementation of neutrality-related procedures and training programmes;
- Acquisition and sharing of specific sector know-how, which means developments and risks can be identified faster and more effectively.

The technological developments encountered by audited organisations require major investments. For example, they are being made in digital dossiers and data analysis technology. These investments are possible if accountancy organisations are part of a multi-disciplinary international network and many technologies can be implemented for auditing as well as advisory purposes in order to improve the reliability of systems, process and information. In this case, solutions may first be developed within the (unregulated) advisory division and later be used to support audits once they have proven their effectiveness.

Another strength of multi-disciplinary organisations is that they are less susceptible to fluctuations in financial results. Temporary shrinkage or seasonal effects within the auditing division - in general or within specific sectors - can be compensated by expanding advisory activities and vice-versa. This makes organisations more resilient from a financial perspective.

An important factor for realising audit quality is the extent to which organisations are able to attract employees with financial/economic backgrounds. If employees are given the opportunity to develop in various areas and move into different disciplines, this will make organisations more attractive employers and allow enough new employees to be recruited. Employees within organisations can also further develop themselves as professionals via secondments abroad or within other disciplines and learn skills that can be useful to them as accountants. These opportunities do not existing, or are more limited, in organisations that are not part of an international multi-disciplinary network.

In addition, when performing the analysis, it is not only important to consider the effect of other disciplines on the auditing division, but to also determine what effect the auditing division has on other disciplines. Within multi-disciplinary organisations, a lot of attention is given to topics such as quality, culture, behaviour and the public interest of provided services. This attention can partly be attributed to the huge microscope that has been hovering over the auditing profession in recent years. The attention is also influencing other disciplines within multi-disciplinary organisations. Fiscal and other advisory services within firms are also being influenced and initiatives are being implemented at firm level (for example, concerning culture and behaviour). Furthermore, a trend can be witnessed where advisory assignments carried out for organisations also include an evaluation of, or specifically relate to, the organisation's broader (public) effects on stakeholders. This is expected by stakeholders and the advised organisations.

On the other hand, the combination of auditing and advisory activities within a single organisation is accompanied by the risk of neutrality-related requirements being violated (e.g. due to the complexity of EU legislation in the PIE segment) or the risk that combining auditing and advisory services in the non-PIE segment will come at the expense of the auditing accountant's neutrality and objectivity. Growth in the advisory divisions of accountancy organisations increases this risk and requires firms to reinforce procedures aimed at safeguarding neutrality and objectivity and avoiding neutrality-related conflicts.

In addition, advisers within multi-disciplinary organisations have an influence on culture and behaviour within the organisation. Due to the nature of their jobs, they tend to place less emphasis on safeguarding the public interest and more emphasis on the interests of the advised organisation. This can have an influence on the prevailing culture at multi-disciplinary organisations where accountants operate. There is also a risk of varying profit levels in different disciplines causing tensions within the organisation, thus placing pressure on accountants to improve profitability (potentially at the expense of audit quality). Finally, the attention of management, investments and employee deployment could shift towards advisory activities if this helps to improve the growth and profitability of the auditing division.

Relative profitability

Annual reports published by the largest firms were examined to gain better insight into the profitability of auditing divisions in relation to advisory divisions and to thus get an impression of the potential effects on internal ratios. The annual reports of three of the four firms (Deloitte, KPMG and PwC) offered an insight into profits per partner and per discipline. The examined information originated from the period 2006/2007 up to and including 2015/2016 (at the time of the examination, KPMG had not yet issued an annual report for the period 2016/2017). This information shows that profits per partner in the auditing division, measured during the entire period, make an average contribution of 90% to profits per partner in the advisory division[16]. This was 83% at Deloitte, 91% at KPMG and 95% at PwC. In ca. 40% of the examined years, the auditing division made a greater contribution to profits than the advisory division, while profitability in the advisory division was higher in 60% of the examined years. In the first seven years of this period, there were barely any changes in the contributions to profits of the auditing and advisory divisions, with each partner in the auditing division having an average contribution ratio of 99% toward the advisory division. However, a decrease in relative contribution to profits was witnessed in the last three years of the period.[17] This can, on the one hand, be explained by investments in audit quality and, on the other hand, mandatory rotation among PIE's (costs associated with quotes and transitions costs for first-year audits). The average ratio in this period amounted to 69%.

2.6. Safeguards

Paragraph 2.5 identified risks associated with a business model where auditing and advisory activities are offered within the same organisation. Safeguards for mitigating the above mentioned risks have already been included in the existing business model, partly in response to the 'In the public interest' report. The primary aim of these safeguards is to ensure that:

- audit quality is the main priority;
- the auditing accountant is neutral;
- the auditing division and the advisory division have equal influence in the network firm;
- auditing accountants have enough say within the organisation.

Appendix 1 summarises the main safeguards implemented in recent years (in addition to existing professional rules). It also indicates which of the identified risks may or may not be applicable.

2.7. Alternative: audit-only model

The sector root cause analysis and available scientific literature does not show that the current international (multi-disciplinary) business model reduces audit quality. However, because the existing model is not free of risks, it is worth asking the question whether an alternative model would help to improve the level of quality realised in the existing model.

[16] In this case, it is worth mentioning that profits per partner are also influenced by changing cost allocations between organisations.
[17] In the meantime, some accountancy organisations have developed a method that is able to compensate for these fluctuations.

A recurring suggestion in the debate about the accountancy sector involves imposing a restriction on accountancy firms when it comes to working with other professional groups.
This is aimed at splitting up existing multi-disciplinary organisations into separate accountancy and advisory organisations, so they are not associated or related in any way and can thus operate completely independently. This means accountancy firms would become 'audit-only', which may help to improve (perception towards) the accountant's neutrality and objectivity. After all, accountants would no longer be exposed to any commercial and/or financial pressure from other disciplines within the organisation.

No proof was found to suggest that the audit-only model would help to improve quality. As discussed earlier, some scientific literature claims that the multi-disciplinary nature of organisations leads to higher quality. Thus far, there is little to prove or support the idea that the multi-disciplinary model decreases quality. The root cause analysis also fails to show that using the multi-disciplinary model has a negative impact on audit quality. In fact, it suggests the model actually has a positive effect on audit quality. Because the audit-only model is not common at international level, the Steering Committee is unaware of any studies where it has been examined. However, when the audit-only model is compared to the multi-disciplinary model, potential new risks can be identified with regards to audit quality.

Firstly, separating the accountancy division results in the loss of specialised knowledge used by the advisory division to improve the quality and relevance of audits. The expertise needed to perform an effective audit normally tends to be sector-specific. As a result, in order to perform an effective audit, it is currently essential to consult colleagues about sector-specific developments and customer-specific systems and products[18]. Audits at more complex companies also require expertise in various areas, which cannot be obtained by simply auditing annual accounts. For instance, knowledge about IT, data analysis, cybersecurity, (real estate) valuation, complex financial instruments, actuarial calculations and fiscal compliance used during audits.

This has been demonstrated by experience in the field. Many of the hours spent working on PIE audits are carried out by people who are not employed as accountants, but as advisers with specialised knowledge.

Secondly, introducing an audit-only model reduces links with international networks, which makes international knowledge sharing and collaboration more difficult. In its purist form, an audit-only model should lead to Dutch accountancy organisations fully splitting away from international multi-disciplinary networks. It would also be unwise to still maintain partnerships with the same multi-disciplinary network. In addition, it would bring an end to large-scale investments. Technology-related investments needed in the coming years are expected to be of such magnitude that they will be infeasible for individual Dutch accountancy organisations which are not part of an international (multi-disciplinary) network. Investment and implementation within whole international networks will offer more opportunities to improve quality by way of technology-based innovation and standardisation.

Besides having a negative impact on quality, this approach may also increase costs. Due to the use of external specialist at market prices and fewer economies of scale, the audit-only model is expected to increase audit-related costs. Furthermore, non-PIE organisations (often SME's) will incur extra costs when hiring accountants as well as external advisers so knowledge about the audited organisation can be acquired.[19] It is also possible that some firms that currently focus on auditing SME's, but realise part of their turnover

[18] Such 'knowledge spill-over' is acknowledged by Koh, Rajgopal & Srinivasan (2015).

[19] In an impact analysis carried out in 2011, the European Commission had already stated that an audit-only approach would considerably hinder the growth and competitiveness of SME firms in the PIE market. On the other hand, PIE clients may have greater choice because more than just one or a few firms will be offering advisory services. (Source: Impact assessment accompanying the proposal for a directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, 30 November 2011)

via advisory services, will leave the auditing market if a choice between auditing and advisory must be made at organisational level. This could restrict choice as well as competition. The exact commercial impact of this needs to be examined in greater detail.

An audit-only model also makes it more difficult to comply with neutrality-related and other rules that apply to the deployment of specialists who, in the existing model, originate from other organisation entities within network firms. This is because deployed external specialists must not have worked for advisory organisations that have already advised the audit client. The use of external specialists in audits is accompanied by new compliance risks because accountants will no longer be able to use internally organised audits and compliance to force external specialists to be neutral.

Finally, a practical issue will be encountered if Dutch accountancy organisations are split from international networks. Many large Dutch companies operate as multinationals even though their headquarters may be based in the Netherlands. This means a large part of any legal audit must be carried out in other countries. For instance, statutory audits at Dutch stock-market-listed multinationals are only partly carried out by accountants working for a Dutch accountancy organisations. The cross-border part of audits involves using organisation accountants based in other counties. They are familiar with local rules, comply with the same internal quality standards and work under the authority of their Dutch colleagues. The Dutch accountancy sector currently lacks the capacity to start performing these audits abroad if an audit-only model was to be implemented.
For example, in an audit-only model, Dutch accountancy organisations will be almost excluded from serving AEX funds unless international collaboration with multi-disciplinary accountancy organisations is permitted. However, the latter would contradict the whole reason for opting for an audit-only model.

Questions for stakeholders:

1. Do you agree with the analysis of strengths and risks for the existing business model? In your opinion, which strengths and risks are missing in the analysis?

2. Do you believe the risks have been mitigated appropriately or inappropriately via existing measures/safeguards? Also see appendix 1.

3. Do you believe the business model's impact on audit quality needs to be researched further? Why or why not? What would additional research entail?

4. Do you agree with the analysis of strengths and risks for the described alternative model? In your opinion, which advantages and disadvantages are missing in the analysis?

5. Do you expect the discussed alternative to be an improvement on the current approach and will it improve audit quality?

6. Besides the discussed alternative model, do you think other models could help to improve audit quality?

3. PARTNER MODEL

Partners in accounting organisations simultaneously occupy the role of professionals, owners and entrepreneurs

3.1. Model description

The accountancy profession in the Netherlands was established towards the end of the Nineteenth Century, as commercial activity increased due to the industrial revolution and the divide between ownership and management via limited companies. Accountants started to operate as individual professionals (with the foundation of the Netherlands Institute of Accountants in 1895) but also within their own organisations. The latter took shape via companies, where accountants served their own customers and operated as partners who shared both costs and profits. The first accountancy firms were thus relatively small. This meant they were easy to manage and allowed partners to focus solely on services for their own audit clients. Shared ownership and the importance of having a good reputation meant accountants would audit one another.

A wave of mergers then started in the Sixties. Accountancy firms grew and, in line with an ever global economy, started to operate at an increasingly international level. This wave of internationalisation and mergers continued in the 1980s and resulted in a few large and internationally active accountancy organisations.

During these developments, the partner model generally remained unchanged from an international perspective, with joint meetings of partners serving as the highest decision-making organ. When performing their auditing activities, auditors started using the people, expertise, network and resources of the organisations where they worked. Conversely, partners used their organisations to subject themselves to obligations with regards to e.g. quality standards and interpersonal audits. As these organisations increased in size, partners started to rotate positions and also became members of management teams or boards of directors. Since 2015, management at PIE accountancy organisations in the Netherlands has been subject to supervision by a supervisory board featuring external members.

Nonetheless, a uniform definition for the partner model is still not available today. In its simplest sense, we could see it as partners sharing costs and profits. Classic examples of partner models can be found in the legal, notarial and medicine sectors. In such cases, there is a clear distinction between a partnership and a 'corporate'. In partnerships, partners are 'agents' and 'principals' at the same time; as professionals, they can influence their own work as well as decision-making in the meeting of partners. This contrasts with the corporate model, where there are clearer divides between ownership, decision-making, the interests of stakeholders and the profession itself.

In recent years, several accountancy organisations in the Netherlands have deviated from the traditional partner model. In 2008, EY converted its partnership structure into UK LLP's. This meant the meeting of partners was no longer the highest decision-making organ and that voting rights of partners were transferred to Ernst & Young LLP, which consisted of EY managers from outside the Netherlands. Grant Thornton also mainly consists of LLP's, apart from in the Netherlands and a few other countries. However, all countries are independent entities at Grant Thornton.

But there are also hybrid partner models. A good example involves the partners at Flynth, who have stopped being shareholders and become employees of a private company. Shares in this private company have been transferred to a foundation via a public limited company. The same also applies to GIBO and Accon AVM. Countus and ABAB have a structure where shares are certified and control lies in the hands of a foundation.

In some countries, these developments are subject to legislation. For example, in France, the partner model is not permitted for multi-disciplinary organisations that exercise regulated professions. Until recently, this was also the case in Italy.

The result of these developments is that some firms have given directors greater control in recent years. And by setting up external supervisory boards, a new equilibrium has been found between the influence of partners and organisations as a whole. That said, auditors in the Netherlands that sign audit reports are still held responsible (liable): if mistakes are made, the person subject to accompanying disciplinary action will normally be addressed and not the accountancy organisation.

3.2. Link between the partner model and drivers of audit quality

The sector root cause analysis was used to identify two (of the ten) drivers of audit quality that are influenced by aspects of the partner model: portfolio size and composition and partner and manager involvement (see figure 5). These drivers are influenced by organisation-related aspects which relate to several characteristics of the partner model.

The sector root cause analysis shows that safeguards must be implemented within accountancy organisations to make sure enough investments are made in efficiency, innovation and quality. The sector root cause analysis indicates that various accountancy organisations still have work to do on this front. The sector root cause analysis also shows the absence of structural under-staffing, while showing that portfolios are clearly decreasing in size. Other drivers identified in the sector root cause analysis either relate to one of the other structural models or to the individual organisations. The latter are beyond the scope of this green paper.

Figure 5: Overview for drivers of audit quality and organisation-related aspects that influence these drivers, within the partner model: NBA sector root cause analysis, 13 November 2017

	Identified driver of audit quality	**Organisation aspects that influence drivers of audit quality**
Partnermodel	Portfolio size and composition (driver 2)	• Financial management and turnover objectives. • Tone from the top and role model behaviour. • Sector specialisation. • International network management and matrix management using sector objectives.
Partnermodel	Partner and manager involvement. (driver 4)	• Financial management and turnover objectives. • Non-financial objectives concerning partner and manager involvement. • Tone from the top and role model behaviour.

3.3. Scientific research [20]

Scientific literature primarily attributes the historical importance of the partner model to the fact that, in economic terms, professional service firms produce a so-called ‘credence good’. This means the quality of the product, namely the audit, cannot be effectively assessed by third parties in advance or afterwards. Because it is not easy for clients and other stakeholders to gain an insight into the quality of this work, quality control is primarily based on cross-checking by professionals and structures within organisations themselves (Levin & Tadelis, 2005).[21] Cross-checking is thus also one of the reasons why specialised lawyers work with other lawyers in the same specialisation (Garicano & Hubbard, 2003).[22]

According to economic and organisational theory, the partner model has several advantages. In traditional corporates, there is a clear divide between ownership (principals) and performed activities (agents). This means the organisation needs a system for influencing the work of (certain) individual employees and this is accompanied by so-called agency costs. In principle, these costs are not encountered in the partner model because partners occupy both roles at the same time; that of principal and agent. However, agency costs may be encountered in larger groups of partners, e.g. if they select directors from their midst who have different interests (for example, partners only have a short-term vision because they are about to retire). That said, Greenwood & Empson (2003)[23] conclude that (compared to other organisation models) agency costs in the partner model are minimal. They state that the partner model is characterised by loyalty and commitment, where professionals directly feel the financial benefits of their work and that of their colleagues.

Another advantage of the partner model is that partners can audit one another on an equal footing. This means partner models can be said to have a certain self-cleansing capacity. In larger accountancy organisations, these partners even monitor the whole audit process. Trompeter (1994) concludes, however, that profit sharing within national organisations (which is a relatively low level) can compromise the objectivity of accountants.[24]

But the partner model also has limitations as the scale and complexity of organisations increases. In this case, Greenwood & Empson (2003) provide the following example:

1. Accountancy organisations are expanding because more and more clients are active in several countries. These clients are also more complex, which leads to greater specialisation. The combination of expansion and specialisation at accountancy organisations means partners become further removed from strategic issues and that their own organisation also becomes more complex.

2. Collective decision-making via consensus and knowledge sharing becomes more difficult as more partners start working in different professional disciplines (once again, due to organisation expansion).

3. There is limited investment capacity to deal with fast technological developments because there are relatively high immaterial and mobile assets. They have limited access to external capital.

4. Potential commodification (compared to specialisation) of audits requires stricter management, as in the corporate model.

5. Increasing legislation has increased the risk of being held liable and encountering higher costs (insurance premiums and costs associated with claim handling).

[20] This green paper refers to relevant scientific publications that are known to the Steering Committee or have been brought to its attention. In no way does this overview claim to be complete or conclusive.
[21] Levin & Tadelis (2005), The Quarterly Journal of Economics, “Profit sharing and the role of professional partnerships”
[22] Garicano & Hubbard (2003), “Specialization, firms and markets: the division of labor within and between law firms”, University of Chicago, Graduate School of Business.
[23] Greenwood & Empson (2003), Organization Studies, “The professional partnership: relic or exemplary form of governance?”
[24] rompeter (1994), Auditing Vol. 13, “The effect of partner compensation schemes and generally accepted accounting principles on audit partner judgment”

6. A system where access to the partnership is promised to loyal and effective employees is becoming less appealing in a society where greater emphasis is placed on finding a balance between work time and leisure time.

In addition, the literature concludes that, although individual accountants are personally responsible for placing their signature on auditor's reports, partners who perform badly could pose a risk to the organisation as a whole (in terms of liability as well as reputation) (Lennox & Wu, 2016)[25]. In smaller partner organisations, there is also a risk of partners operating for their own financial gain. This risk decreases as profit pooling (so partners do not keep their profits but share them with one another) starts to occur higher up in the organisation (Lennox & Wu, 2016).

Over the years, different reward systems have been created to mitigate risks within the partner model, which involve evaluating partners based on commercial objectives as well as the quality of their work. Because they (partly) share risks associated with liability and reputation, rewarding quality appears to be in the collective interests of organisation partners. Johansen & Christoffersen (2017) conclude that it is possible to restrict 'dysfunctional behaviour' by focussing on quality during performance appraisals. They also state the dysfunctional behaviour decreases as accountants rise up the organisation and are given greater responsibility. Once at this level, they are less susceptible to remuneration-based incentives. Carcello, Hermanson & Huss (2000) say they found no evidence to support the theory that popular partner compensation models have a negative impact on the neutrality of accountants, although they say accountants in partner organisations with limited profit pooling may be more susceptible to the size of audited organisations than accountants in partner organisation with higher profit pooling.[26] If profit pooling is lower, partners only have to share their profit with a limited number of partners; if profit pooling is higher, individually realised profits are added up and divided among all partners In the first situation, partner income is more reliant on the individual performances of partners than in the second situation. Remuneration differences between individual partners have also increased significantly in recent years. This points to increasing focus on the performance of individual accountants (Coram & Robinson, 2016).

In addition, empirical research has been carried out into the presence and effectiveness of quality-based rewards. Knechel, Niemi & Zerni (2013)[27] examined 287 individual partners at the top four accountancy organisations in Sweden. At three of the four firms, they discovered a positive relationship between remuneration and increase in auditing clients. The loss of auditing clients only resulted in lower remuneration at one of the examined firms. They also found proof that specialisation leads to higher remuneration and established a link between 'reporting errors' (in relation to going concern reports) and lower accountant remuneration.

However, more recent research by Van Brenk (2017)[28] shows that situation-related and personal characteristics must be taken into account when considering the effects of accountant remuneration. Van Brenk states that, in recent years, accountancy organisations have started to consider performance indicators (in relation to audit quality) when rewarding their professionals. He also uses experiments to demonstrate that measures involving incentives have different effects on the judgement and decision-making of different accountants and that the resulting effect is determined by their personality. The intrinsic motivation of accountants is an important factor. Generic measures are not effective, neither are bonuses for audit quality.

Existing scientific research does not show a clear negative relationship between the current partner model and the quality of statutory audits. This paints a somewhat mixed picture. The model has certain strengths, but also has a few weaknesses. Further scientific research (e.g. by

25 Lennox & Wu (2016), A review of the literature on audit partners
26 Carcello, Hermanson & Huss (2000), Auditing: a Journal of Practice & Theory, "Going-concern opinions: the effects of partner compensation plans and client size"
27 Knechel, Niemi & Zerni (2013), Journal of Accounting Research, "Empirical evidence on the implicit determinants of compensation in big 4 audit partnerships"
28 Van Brenk (2017), Compensation Incentives and Personality Traits: three studies on their joint effects on auditor judgment and decision making.

the Foundation for Auditing Research) can help to improve insights into the relationship between the partner model and audit quality.

3.4. Experiences abroad [29]

Various legal structures are encountered at international level, some of which are driven by legislation. As stated earlier, this also applies in the Netherlands. Genuine partnerships are encountered, as are partnerships where partners are shareholders in a PLC or Ltd., members of a cooperative or part of a foundation. In almost all models (including foundations), all revenues are - once costs have been deducted - shared among partners and employees via, for example, dividends on shares or a form of profit-based bonus for employees.
In most examined countries, restrictions are implemented concerning the ownership of accountancy organisations. In the examined countries (besides the Netherlands: France, Germany, the United Kingdom, Italy, Canada and most states within the United States), the majority of voting rights must be in the hands of (the local equivalent of) chartered accountants. Furthermore, Italy is the only country we are aware of where accountancy organisations can be stock-market-listed; something which does not seem to appeal to market parties or stakeholders at this moment in time. No major international restrictions could be found concerning the possibility for accountancy organisations to share profits among partners, for example, by paying a dividend to shareholders.

In New Zealand, an organisation established by the government, namely Audit New Zealand, performs some of the audits at public entities under assignment from the 'Controller and Auditor-General'. According to the website of Audit New Zealand, the organisation audits over half of all public entities (with the exception of schools).

In the United Kingdom, the government had decided to establish a separate body, namely the Audit Commission, to perform some of the audits in the public sector. However, the British government decided to dismantle the Audit Commission a few years ago. The British government's decision to shut down the Audit Commission primarily appears to have been motivated by the accompanying cost savings.

In addition, there are some small scale examples of situations where specific stakeholders are directly involved in auditing organisations where they have a vested interest. For instance, the French football association had decided to set up its own accountancy organisation (DNCG) to audit the annual accounts of affiliated football clubs.

It is unknown to what extent these alternative organisation types lead to an increase in quality. They were only implemented on a limited scale, namely in the public sector.

3.5. Strengths and risks of the existing model

It is also important to determine the strengths and risks of the current international partner model at organisation level. These strengths and risks have been summarised in figure 6.
The inventory is based on an in-house analysis of the existing model, experiences in practice and insights from examined scientific literature.

[29] The exact approach and practical experiences in other countries can be explored further and falls outside the scope of this green paper.

Figure 6: Overview of strengths and risks of the current international partner model

Strengths

1. The partner model is quite similar to the master-apprentice structure, where newly qualified accountants gain experience under the wing of partners. This can help to improve learning-on-the-job and offer career opportunities.

2. First and foremost, partners that sign audit reports are responsible for making sure audits are performed effectively. This means liability and responsibility fall upon the same people (namely, partners that own the organisation and are professionally responsible for performing audits). This can lead to greater commitment on the part of partners, interpersonal audits and self-cleansing.

3. Because they are co-owners, partners may be more committed to the organisation and its long-term existence (possibly to a lesser extent if they intend to leave in the near future).

4. Co-ownership and voting rights mean collective decisions may receive greater support within organisations.

5. In some countries, local laws and regulations not only impose restrictions concerning ownership, but also stipulate that accountancy organisations must be set up as partnerships.

Risks

1. Partners generally share annual profits. This can have an influence on investment capacity and investment appetite when it comes to investments with longer payback times, thus leading to a short-term focus.

2. Because, for example, partners are evaluated against commercial objectives, tension could be created between short and long-term focus as well as commercial and public interests.

3. Partners that are about to leave the organisation have no financial interests in quality-related investments in the organisation.

4. The controlling rights of partners (as co-owners) and the required support could limit the impact of management.

5. The partner model is characterised by a closed culture. This means organisations may not be open enough for external developments.

3.6. Safeguards

Paragraph 3.5 pays closers attention to the risks of the partner model. Various safeguards for mitigating the mentioned risks have already been implemented, partly in response to the 'In the public interest' report. The primary aim of these safeguards is to ensure that:

- partnerships offer enough opportunities for dissenting voices;
- a critical view of the outside world is implemented;
- there are enough 'checks and balances'.

The table in appendix 2 summarised the main safeguards implemented
in recent years. It also indicates which of the identified risks have or have not been addressed.

3.7. Alternative: corporate

The sector root cause analysis and available scientific literature present several aspects relating to quality policy and the increasing size of accountancy organisations. That is why it is once again relevant to question whether an alternative model could lead to higher quality than the current model.

The most obvious alternative for the international partner model is a model where partners no longer have a say about implemented policy, but are only entitled to receive profits (possibly variable). In practice, this will transform existing multi-disciplinary accountancy organisations into so-called corporates. This is expected to offer management greater say in these organisations and perhaps make it possible to quickly introduce changes top-down. In addition, the corporate model would work differently in a world the risk of claims is increasing. Due to their external shareholding and ownership, corporates also tend to have better access to the capital market, which means it will be easier to implement investments in technology that helps to improve audit quality. On the other hand, financing based on borrowed capital can increase the risk profile of accountancy organisations and shareholders without any professional responsibility may place greater emphasis on short-term profitability.
In this case, consider private equity providers, hedge funds or activist shareholders who have previously put pressure on corporates to prioritise short-term profitability and value creation for shareholders ahead of a broader and more long-term shareholder vision.

When shareholding, management and professional responsibility are separated, there is also a risk of 'moral hazard'; management can take bigger risks because the resulting costs are covered by others (namely shareholders). This explains a number of cases where corporates endangered organisation continuity by placing too much short-term focus and taking excessive risks.

As a result, the corporate model is also not free of risks and the effect on quality is uncertain: the previously discussed scientific literature or experiences abroad show no reason to expect an improvement in quality if partners are no longer owners but merely employees and if there is a divide between ownership and management of the organisation. Learning capacity and appeal in the labour market could also change because the master-apprentice structure is less prominent in corporates. Literature shows that the types of activities carried out by accountants are compatible with an organisation model where responsibilities and authorisations are in the hands of partners/employees that perform auditing activities in their day-to-day tasks (nonetheless, management becomes more complex as the organisation expands). Partners audit one another during auditing activities and, due to their co-ownership, experience relatively high autonomy and responsibility for their personal actions. This responsibility is not only based on culture, but also on increased accountability; if the accountant does not perform effectively, s/he will be asked to appear before the Chamber of Accountants.

For each model, one must consider whether the model contains appropriate checks and balances and whether governance helps to realise the objectives of the organisation and, in the case of accountancy organisations, perform audits that meet the expectations of stakeholders. Measures have been taken to reinforce governance in recent years (see paragraph 3.6) and it is important for individual organisations and the sector to periodically assess their effectiveness.

Finally, if a corporate model is implemented, the Wta may need to be modified because it has recently been designed to offer accountants the biggest say in accountancy organisations.

Questions for stakeholders:

1. Do you agree with the analysis of strengths and risks for the existing partner model? In your opinion, which strengths and risks are missing in the analysis?

2. Do you believe the risks have been mitigated appropriately or inappropriately via existing measures/safeguards? Also see appendix 2.

3. Do you believe the partner model's impact on audit quality needs to be researched further? Why or why not? What would additional research entail?

4. Do you agree with the analysis of strengths and risks for the described alternative model? In your opinion, which advantages and disadvantages are missing in the analysis?

5. Do you expect the discussed alternative to be an improvement on the current approach and will it improve audit quality?

6. Besides the discussed alternative model, do you think other models could help to improve audit quality?

4. EARNINGS MODEL

The accountancy organisation is paid by the audited organisation

4.1 Model description

Accountants pass judgement on annual accounts for users of the concerned annual accounts. But these users do not directly appoint the accountant. Under article 2:393 para.1 CC, the legal entity is responsible for assigning an accountant to audit the annual account. This is a continuation of the situation that already existed before audits became mandatory by law and still exists today in situations without legal obligations to perform audits. For instance, it applies to organisations that are not subject to book 2, title 9 of the Civil Code (CC2), organisations that qualify as small legal entities or information that is not subject to CC2 title 9.

The accountancy profession exists because stakeholders need a neutral and objective judgement from a neutral and objective expert. Stakeholders can ask organisations to present such judgements before they decide to establish a business relationship with them. This can, for example, apply to shareholders before they invest, banks before they provide credit or subsidising bodies before they decide to offer a subsidy. In these situations, it is clear that the assignment for the audit is initiated by the concerned stakeholders.

But, in most cases, stakeholders will not actually make the appointment. Stakeholders can demand organisations to appoint an accountant so an audit can be carried out. The accountant's invoice must then be paid by the organisation. Although stakeholders are the eventual beneficiaries, it would be practically impossible to identify every stakeholder, define a separate assignment with each of them and agree accompanying payments.

Besides audits that are carried out after being directly demanded by stakeholders, situations are encountered where organisations themselves realise that presenting an audited annual account could play an important role in attracting capital or establishing other business relationships. In such cases, the legal entity will appoint an accountant in accordance with stakeholder expectations. Voluntary audits on interim financial information or 'sustainability reports' are examples where organisations make such decisions and ask accountants to pass neutral and objective judgement on this information in the interest of stakeholders.

The legislator has decided to further institutionalise practices introduced due to market forces and to legally require certain legal entities to perform audits on their annual accounts. The AFM market analysis for accountancy organisations 2010-2014 shows that, in 2014, 76% of sector-based assurance turnover related to statutory audits and 24% to non-statutory assurance assignments. This shows that the need for assurance is significantly determined by the needs of stakeholders, even though the legislator has already made most existing audits a legal requirement. These stakeholders force audits to be carried out at legal bodies, or the legal entity personally realises the need, even though there is no legal obligation to do so.

Even though the legal entity must appoint the accountant, the law says this cannot be done by management at the legal entity. Only the general meeting is entitled to issue the assignment. However, if it decides not do so, authority will pass to the supervisory board or, if there is no such board or the board does not act, to management. A change in laws has been proposed in the meantime, where management will only be able to make the appointment in the absence of a supervisory board. The law states that, wherever possible, accountants must be appointed by (representatives of) stakeholders and not the audited organisation. This is irrespective of the question concerning who will be responsible for paying the accountant's invoice.

Whether accountants are actually appointed by the (representatives of) stakeholders is determined by the effectiveness of governance within the organisation and the manner in which shareholders and non-executive directors fulfil their roles and responsibilities. In effective corporate governance systems, accountants are more likely to be appointed by (representatives of) stakeholders than in situations where shareholders and non-executive directors leave appointment to management or where the same person is responsible for shareholding and management (thus no supervisory board).

4.2 Link between the earnings model and drivers of audit quality

The sector root cause analysis was used to identified two (of the ten) drivers of audit quality that are influenced by aspects of the earnings model (see figure 7). These drivers are influenced by organisation-related aspects which relate to several characteristics of the earnings model.
The sector root cause analysis shows that some accountants sometimes have difficulty conversing with organisations when it comes to postponing deadlines if auditing activities have not yet been completed. In addition, the root cause analysis also showed that maturity and governance at audited organisations have an important impact on the audit carried out by accountants. If accountants encounter shortcomings in the internal controls and governance of an organisation, they must address these shortcomings so the audit complies with legal requirements. Finally, although process management, planning and portfolio size are areas of attention, they are more applicable to individual accountancy organisations than the earnings model.

Other drivers identified in the sector root cause analysis either relate to one of the other structural models or to the individual accountancy organisations. The latter are beyond the scope of this green paper.

Figure 7: Overview for drivers of audit quality and organisation-related aspects that influence these drivers, within the earnings model (source: NBA sector root cause analysis, 13 November 2017)

	Identified driver of audit quality	Organisation aspects that influence drivers of audit quality
Earnings model	Comfortable enough to have a robust dialogue. *(driver 8)*	• Tone from the top, including international network management. • Role model behaviour/communication about postponed deadlines and the issue of unqualified opinions.
	Maturity of the audited organisation. *(driver 10)*	• Transparency about conditions the accountancy organisation imposes in the audited organisation. • Policy for client/assignment acceptance and continuation.

4.3 Scientific research [30]

DeFond & Zhang (2014) have provided an overview of research into demand for audit quality. They say this demand is driven by incentives offered by, and the competence of, the client. With regards to the influence of incentives, they say that (limited) available scientific research shows that demand for audit quality increases as the agency-problem increases. For example, if companies are financed using more borrowed capital or if there is a decrease in ownership (shareholding) among management. If the agency-problem is limited or is not encountered altogether (for example, companies where ownership and management is in the hands of the same party and financing mainly takes place using equity capital), demand for audit quality is not driven by external stakeholders; in such cases, the demanded quality is driven by legislation.

Studies that have researched the influence of the auditing organisation's competence, focus on the effectiveness of corporate governance implemented at the audited organisation. These studies show that stronger corporate governance has a positive correlation with audit quality. This, for example, includes the presence of an independently audit committee and audit committees featuring financial specialists; these characteristics have a positive impact on audit quality. DeFond & Zhang refer to the introduction of Sarbanes-Oxley (SOx) legislation in the United States as the first legal intervention that not only intervenes in the supply side of audit quality but also the demand side, which includes implementing requirements for audit committees and requirements concerning the operation of internal auditing systems at audited organisations. They say that scientific research has identified strong indications to suggest that SOx provisions for audit committees and other factors that indicate the expertise and neutrality of audit committees, have a positive influence on audit quality. SOx 404 requirements concerning internal controls at companies also appear to have a positive influence.

DeFond & Zhang (2014) have also examined research that focuses on offering audit quality from a supply perspective. They used available scientific evidence to conclude that reputation and claim-related risks served as an incentive for accountants to offer audit quality; in this case, when it comes to claim-related risks, there must be a sufficiently clear and direct link between claims and audit-related efforts.
Research into the relationship between the size of the client and the neutrality of the accountant paints a mixed picture. In this regard, DeFond & Zhang state that threats to neutrality, due to reliance on a major client, are compensated by higher claim and reputation risks for accountants.

Finally, DeFond & Zhang (2014) have also addressed the wealth of research showing that larger firms realise higher audit quality. They established a link between competencies, on the one hand, and incentives, on the other hand. With regards to incentives, they state that larger firms are less susceptible to pressure from individual clients and that reputation and claims-related risks ('deep pockets') have a bigger impact on these firms.

To summarise, existing scientific research shows a positive impact on audit quality if the audited organisation has greater interest in supplying credible information to stakeholders and/or if better governance is implemented at the audited company. In such cases, incentives at the audited organisation have a positive impact on audit quality. In addition, reputation risk and claim risk serve as incentives for accountants to realise high audit quality. In this regard, it is important that these risks can actually be mitigated by the accountant and, for example, that the claim risk (and its magnitude) is actually related to efforts made during the audit. Finally, legislation and supervision serve as a 'breeding ground' in situations where there are not enough such incentives on the demand and supply side, e.g. because there are fewer external stakeholders or because they are less dominant.

[30] This green paper refers to relevant scientific publications that are known to the Steering Committee or have been brought to its attention. In no way does this overview claim to be complete or conclusive.

4.4 Experiences abroad [31]

In New Zealand, accountants at government organisations (public entities) are appointed by the 'Controller and Auditor-General'. Although this can involve appointing private accountancy organisations, some of the audits carried out at government organisations (public sector entities) are performed by Audit New Zealand under assignment from this government body. According to the website of Audit New Zealand, the organisation audits over half of all public sector entities (with the exception of schools).

In the United Kingdom, the government had decided to establish a separate body, namely the Audit Commission, to perform some of the audits in the public sector and to appoint a private accountancy organisation so it could directly influence neutrality and quality. However, the British government decided to dismantle the Audit Commission a few years ago, after which 'Public Sector Audit Appointments' took over existing contracts on a 'transitional basis' as of 1 April 2015. This body is independent and one of its responsibilities is to appoint accountants at local authorities and the police force. The British government's decision to shut down the Audit Commission primarily appears to have been motivated by the accompanying cost savings.

In addition, there are some small scale examples of situations where specific stakeholders are directly involved in auditing organisations where they have a vested interest. For instance, the French football association had decided to set up its own accountancy organisation (DNCG) to audit the annual accounts of affiliated football clubs.

However, in the vast majority of cases, we see that audits around the world are being carried out by private accountancy organisations where the appointment process for accountants is stipulated in the governance of audited organisations (meeting of shareholders, audit committee) and quality is safeguarded via legislation and supervision.

4.5 Strengths and risks of the model

Figure 8 identifies the strengths and risks of the current earnings model at organisation level. This inventory is based on an in-house analysis of the existing model, experiences in practice and insights from examined scientific literature. Further explanation can be found on the next page.

[31] The exact approach and practical experiences in other countries can be explored further and falls outside the scope of this green paper.

Figure 8: Overview of strengths and risks of the existing earnings model

Strengths	Risks
1. Relevant bodies within organisations (supervisory board, audit committee) have a good insight into what is needed to realise an effective audit and can modify the selection process and budget, for the accountant accordingly. This allows the accountant to operate independently from management.	1. The financial interests of auditing assignments may be prioritised over audit quality. This can result in improper behaviour where accountants work with audited organisations to see how the lowest acceptable standards in laws and regulations can be met.
2. The involvement of shareholders and stakeholders in audits can be improved if accountants are appointed by the supervisory board (audit committee) and are held accountable by the general meeting of shareholders.	2. If governance within audited organisations is ineffective and the audited management is responsible for appointing and relieving accountants, the accountant may not be able to offer enough resistance against management in situations where management and the accountant have differing objectives (for example, cut-backs in accountancy costs versus reliable information in the public interest).
3. Market forces could possibly enforce efficiency and innovation.	3. Competition in the market can place pressure on prices in situations where the appointed accountant does not fully see the added value of the audit. This could possibly reduce audit quality.
4. Because statutory audits are carried out privately (in general, for stakeholders that use the information in a private setting), the liability risk associated with this undertaking also applies to private parties.	
5. Reputation damage (due to incidents) can lead to lost customers and sub-standard performance can lead to claims and financial damage.	

Explanation
In the current model, the audit committee is mainly responsible for maintaining the relationship with the accountant. Decision-making and supervisory bodies within the organisation are independently and punctually informed about the results of the audit and can request additional auditing activities to be carried out. This avoids situations where accountants must report crucial findings to management, while discussing the expansion of audit activities with the same management.

Although accountants operate from within their accounting organisations, individual accountants are responsible for issuing the auditor's report. If the audit is conducted inappropriately, this not only endangers the (reputation of the) accountancy organisation but also the individual accountant.

There is a risk of accountants not offering enough resistance. For instance, this risk could be encountered if accountants are appointed by people who are also part of the audited management, which could cause a conflict between serving the interests of the client or those of the public. This could cause accountants to find themselves in situations where they choose to adopt a less critical stance because they want to protect their relationship with the audited organisation. This can have a negative impact on the process and results of the audit.

4.6 Safeguards

The table in appendix 3 contains the main safeguards implemented in recent years (besides existing professional rules) to mitigate the mentioned risks.

The described safeguards make sure PIE's feature a clear partition between the audited organisation and the person that appoints the accountant and to whom s/he is accountable (general meeting of shareholders, the supervisory board and, in particular, the audit committee). This helps to better separate interests and extends the distance between accountants and management at audited organisations. The effectiveness of the model is determined by the effectiveness of governance at the audited organisations, the way in which the supervisory board and audit committee exercise their tasks as well as the personal attitude of the accountant.

Fewer safeguards are present in organisations that do not qualify as PIE's, which means the same person could be a shareholder and a manager, and a supervisory board may not have been established. In such cases, accountants themselves must, while complying with applicable professional rules, safeguard and make sure they can perform their activities at the audited organisation in the interest of the public. Internal and external supervision (including the review of audit dossiers) and disciplinary action are safeguards that should prevent accountants from making decisions that breach the fundamental principles in the Verordening Gedrags- en Beroepsregels Accountants (ordinance concerning behavioural and professional rules for accountants). This deals with the responsibility of accountants to behave in the interests of the pubic.

4.7 Alternative: statutory audits carried out by the government

The sector root cause analysis and available scientific literature showed that the current earnings model does not lead to lower audit quality if there is effective governance. However, because the earnings model is not free of risks, it would once again be relevant to question whether an alternative model would offer better quality.

The neutral position of accountants, in relation to their clients, has attracted the attention of certain stakeholders, including politicians. Financial dependence on the client leads to the risk of accountants prioritising their relationship with the audited organisation above quality. One way to make sure private accountants do not become financially dependent is to implement a model where statutory audits are carried out by the government. This can be done by establishing a national auditing department or by expanding the existing Auditdienst Rijk (Government Audit Department).

However, this model would experience new quality-related risks. As stated earlier, statutory audits can only be carried out if specialised and sector-specific expertise and knowledge are available. It is expected that the government will still need to establish this expertise and knowledge in order to perform auditing activities in accordance with existing quality requirements (with the exception of audits carried out within the current catchment area of the Auditdienst Rijk). In addition, government investments in quality and innovation are determined by the available budgetary capacity and are not driven by market forces because there is a lack of competition.

Secondly, the government possesses insufficient auditing capacity; the Netherlands is currently experiencing a shortage of accountants. In this case, it is worth mentioning that, when auditing organisations with activities or subsidiaries abroad, accountants in other countries (within existing international network firms) are currently being used. A lot of activities for Dutch companies are being carried out outside the Netherlands. It is unclear how a newly established national auditing department would be able to use one or more international network firms when auditing multinationals and, with this in mind, whether it would make sense to establish a national auditing department if only the Dutch part of the audit can be carried out by the government. It is also unclear which party in the model would be responsible for providing other assurance services. For instance, comfort letters for prospectuses, publishing reports, assurance for non-financial information (integrated reports) or assurance for internal controls in shared-service organisations. Considering the overlap with the annual account audit, it would make sense if this was done by the government. However, this is a non-statutory task. Finally, the combination of these risks (quality and capacity) could have a negative effect on the willingness of companies to be based in the Netherlands. On this front, the audit-only model deviates from what is customary at international level.

Questions for stakeholders:

1. Do you agree with the analysis of strengths and risks for the existing earnings model? In your opinion, which strengths and risks are missing in the analysis?

2. Do you believe the risks have been mitigated appropriately or inappropriately via existing measures/safeguards? Also see appendix 3.

3. Do you believe the earnings model's impact on audit quality needs to be researched further? Why or why not? What would additional research entail?

4. Do you agree with the analysis of strengths and risks for the described alternative model? In your opinion, which advantages and disadvantages are missing in the analysis?

5. Do you expect the discussed alternative to be an improvement on the current approach and will it improve audit quality?

6. Besides the discussed alternative model, do you think other models could help to improve audit quality?

APPENDIX 1: SAFEGUARDS CONCERNING RISKS IN THE CURRENT BUSINESS MODEL

Figure 9: Overview of risks addressed in the current business model, existing safeguard and their intended effect

	Addressed risk [32]	***Safeguard***	***Intended effect***
1	Commercial culture. *(risk 3)* Managerial imbalance. *(risk 4)* Unclear company profile. *(risk 5)*	The majority of voting rights in accountancy organisations must be in the hands of accountants. (Wta; previously arranged in via Additional regulations concerning the Neutrality of Accountants). Applicable since 2005.	This measure makes sure, irrespective of standing within the broader network firm, the accountancy organisation will always possess accountants that have a say in decisions concerning the accountancy organisation.
2	Limited neutrality. *(risk 1)* Violate neutrality-related rules. *(risk 2)*	Mandatory note provided by the legal entity in relation to total audit-related fees charged to the legal entity in the financial year and total fees for other services (divided into categories) carried out by the external accountant and the accountancy organisation. (CC2T9) Applicable since 2008.	This note enables stakeholders to gain an insight into the relative share of non-auditing fees in relation to total fees for accountants. Stakeholders can ask the audited organisation questions in this regard.
3	Limited neutrality. *(risk 1)* Violate neutrality-related rules. *(risk 2)* Commercial culture. *(risk 3)*	Ban on rewards for the commercial performance of an audit client (including acquisition of advisory services). (Accountancy organisation Ordinance; later the Ordinance concerning the Neutrality of Accountants in Assurance assignments). Applicable since 2012.	Audit partners have no financial incentives to sell advisory services to audit clients.
4	Limited neutrality. *(risk 1)* Violate neutrality-related rules. *(risk 2)* Commercial culture. *(risk 3)*	Separation of auditing/advisory at PIE's (Wta). Applicable since 2013.	At PIE's, network firms cannot supply advisory services to organisations where they are also serving as the auditing accountant. The combination of auditing and advisory services, and related neutrality conflicts, are avoided.
5	Limited neutrality. *(risk 1)* Commercial culture. *(risk 3)*	Ordinance concerning the Neutrality of Accountants in Assurance assignments (ViO). Applicable since 2014, to replace previous neutrality-related legislation.	Accountancy organisations must comply with ViO for audit clients, which includes neutrality safeguards featuring restrictions concerning advisory services that can be supplied to audit clients. This helps to reduce the risk of neutrality-related conflicts.

[32] References relate to figure 4.

	Addressed risk [32]	*Safeguard*	*Intended effect*
			(NB: legislation that was in place before the ViO also contained various provisions aimed at safeguarding the neutrality of accountants).
6	Limited neutrality. *(risk 1)* Commercial culture. *(risk 3)*	Mandatory partner rotation (5 years) at PIE's (Wta). Mandatory partner rotation (7 years) at non-PIE's (Wta). Stricter rules in place since 2016 and 2005 respectively.	Mandatory rotation aims to make sure accountants maintain sufficient distance and objectivity in relation to the audited organisation.
7	Limited neutrality. *(risk 1)* Commercial culture. *(risk 3)*	Mandatory firm rotation (10 years) at PIE's (Wta). Applicable since 2016.	Mandatory rotation aims to make sure accountants maintain sufficient distance and objectivity in relation to the audited organisation.
8	Violate neutrality-related rules. *(risk 2)* Commercial culture. *(risk 3)* Managerial imbalance. *(risk 4)* Unclear company profile. *(risk 5)*	Introduction of supervisory board to, for example, monitor public interest, organisation-wide aspects that influence audit quality and the equilibrium within accountancy organisations (including limiting the effects of conflicting interests). ('In the public interest' report, measures 2.1 - 2.6) (Act concerning additional measures for accountancy organisations, art. 16a) *Expected to be mandatory as of 1 July 2018, but already introduced by PIE accountancy organisations.*	The supervisory board must, for example, make sure the accountancy organisation pays enough attention to public interest and focuses its auditing activities on organisation-wide aspects that have an impact on audit quality, neutrality, integrity and the interests of external stakeholders of the audit. Its task includes making sure appropriate investments are made in the auditing division and that the interests of the auditing division and audit quality are safeguarded in (strategic) decision-making.
9	Commercial culture. *(risk 3)* Managerial imbalance. *(risk 4)*	Management maintains enough distance and has enough time to manage. This task is primarily assigned to a manager who is responsible for quality. ('In the public interest' report, measures 2.7 - 2.8) Applicable since 2015-2016.	Management has enough time to manage the organisation, particularly the manager responsible for quality. This means management can pay enough attention to the auditing division and quality control.
10	Limited neutrality. *(risk 1)*	Promoting and rewarding employees, partners and managers in a system that primarily rewards on the basis of	Responsibility and quality are the main criteria for rewarding managers at the holding and partners and employees at

	Addressed risk [32]	Safeguard	Intended effect
	Commercial culture. *(risk 3)*	contribution to quality ('In the public interest' report, measures 3.1-3.5). Stricter rules in place since 2015-2016.	the accountancy organisation. In this case, the promotion and reward arrangements aim to make sure partners and employees mainly focus on realising quality and that this is more important to partners and employees who perform audit activities than commercial performance.
11	Limited neutrality. *(risk 1)* Violate neutrality-related rules. *(risk 2)* Commercial culture. *(risk 3)* Managerial imbalance. *(risk 4)*	Measures aimed at realising and monitoring a quality-oriented culture, ethical behaviour and a critical attitude ('In the public interest' report, measures 1.1 – 1.4 and 5.7). Stricter rules in place since 2015-2016.	These measures make sure the culture within organisations primarily focuses on the public interest and the importance of audit quality.
12	Commercial culture. *(risk 3)* Managerial imbalance. *(risk 4)*	Quality indicators report ('In the public interest' report, measure 5.1). Applicable sector-wide since 2015-2016.	Stakeholders can use the reported quality factors to form an opinion about whether the organisation sufficiently invests in aspects that are relevant to audit quality and is making enough progress in realising quality-related objectives.
13	Limited neutrality. *(risk 1)* Commercial culture. *(risk 3)*	Claw-back arrangement for PIE accountancy organisations, whereby partners reserve at least one year's income and possibly make losses if errors are made in the audit over the past 6 years. ('In the public interest' report, measure 3.5). Applicable since 2015.	This helps to improve the extent to which partners focus on the quality of their work.
14	Limited neutrality. *(risk 1)* Violate neutrality-related rules. *(risk 2)* Commercial culture. *(risk 3)*	Internal procedures and more staff in the professional expertise, neutrality and compliance departments. Combined with Additional Rules for Quality Standards (NVKS) since 2017.	This uses a more careful approach to prevent activities being performed in individual assignments that lead to neutrality conflicts and make sure the profession is exercised in accordance with laws and regulations.

	Addressed risk [32]	*Safeguard*	*Intended effect*
	Managerial imbalance. (risk 4)		
15	Limited neutrality. *(risk 1)* Commercial culture. *(risk 3)* Managerial imbalance. *(risk 4)*	Suitability assessment for policymakers. Expected to be mandatory as of 1 July 2018.	This makes sure directors and management as a whole set appropriate priorities, possess relevant expertise and support one another so management has access to competencies and skills needed to manage effectively.

APPENDIX 2: SAFEGUARDS CONCERNING RISKS IN THE CURRENT PARTNER MODEL

Figure 10: Overview of risks addressed in the current partner model, existing safeguards and their intended effect

	Addressed risk [33]	***Safeguard***	***Intended effect***
1	Short-term focus due to profit sharing. *(risk 1)* Short-term focus because evaluations are based on commercial goal. *(risk 2)* Limited investment in quality due to departing partners. *(risk 3)* Management has limited impact. *(risk 4)*	Accountancy Organisations Supervision Act, where requirements have been set concerning the governance of accountancy organisations. For instance: • accountancy organisations must possess a license (art 5); • accountancy organisations must comprehensively account for their actions via the transparency report (art 12c); • management at accountancy organisations must make sure the duty of care is met (art 14); • requirements are imposed on directors (policymakers). They must be reliable and qualified when it comes to the quality control system (art 15 and 16); • the majority of voting rights in accountancy organisations must be in the hands of accountants (art 16); • organisations must possess a quality control system (art 18) and run their operations in a well managed and honest manner (art 21); • requirements established for external accountants, which must be compiled by directors, have been summarised in art 25- 31. Finally, the AFM intensively supervises accountancy organisations and possesses a whole range of compliance measures, which includes imposing penalties and revoking licenses. Applicable since 2006.	A professional accountancy organisation where management maintains an appropriate distance from external accountants (with own responsibilities and authorisations).
2	Short-term focus due to profit sharing. *(risk 1)* Short-term focus because evaluations are based on commercial goals. *(risk 2)*	Introduction of a supervisory board for an outside-in perspective and appropriate checks and balances. The supervisory board has clear authority with regards to policy concerning audit quality and neutrality. Important tasks of the supervisory board include appointing and discharging directors	By introducing a supervisory board, extra supervisory capacity is created for monitoring the balance between commercial and public interests. The supervisory board makes sure enough attention is paid to quality and neutrality.

[33] References relate to figure 6.

	Addressed risk [33]	*Safeguard*	*Intended effect*
	Limited investment in quality due to departing partners. *(risk 3)* Management has limited impact. *(risk 4)* Culture not open enough. *(risk 5)*	(via a binding nomination) and approving the remuneration, appointment and quality policy of the accountancy organisation. Members of the supervisor board are appointed and discharge by the supervisory board. This takes place based on exclusive and binding nomination to the meeting of shareholders, which can only withhold approval on formal grounds. The appointment process for supervisory board members includes a suitability test by the AFM. If required, the supervisory board can feature core committees in accordance with the CCG. Safeguarding the public interest is one of the most essential tasks carried out by the supervisory board as a whole. The role of the existing Public Interest Committee will be integrated into the supervisory board. *Mandatory as of 1 July 2018, but already introduced by PIE accountancy organisations.*	
3	Management has limited impact. *(risk 4)*	The management of the organisation must be composed in a sufficiently balanced 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 carried out by the AFM. The management must be able to maintain sufficient distance from the partnership and should spend enough time on managing the organisation. A member of the board who is principally responsible for 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 observance thereof. It is possible	Clear responsibilities and authorities for directors. The role of directors differs from that of partners, which helps to create distance.

	Addressed risk [33]	*Safeguard*	*Intended effect*
		for directors to have a limited portfolio as auditing accountant, but only after approval by SB. Applicable since 2015-2016.	
4	Short-term focus due to profit sharing. *(risk 1)* Short-term focus because evaluation is based on commercial goals. *(risk 2)* Limited investment in quality due to departing partners. *(risk 3)*	NBA Guide 1135: - Publication quality factors: extensive requirements concerning quality indicators, such as executive involvement, number of sounding boards, size of support departments, etc. Applicable since 2016.	Transparency concerning important indicators in the field of quality, so third parties can see to what extent accountancy firms invest in quality.
5	Short-term focus due to profit sharing. *(risk 1)* Short-term focus due to evaluation based on commercial goals. *(risk 2)* Limited investment in quality due to departing partners. *(risk 3)* Management has limited management. *(risk 4)* Culture not open enough. *(risk 5)*	Act concerning additional measures accountancy organisations. Legal requirement to introduce a supervisory board and the suitability assessment for directors and non-executive directors. Applicable as of 2018.	Reinforced governance at accountancy organisations and a safeguard that directors and management as a whole set appropriate priorities, possess relevant expertise and support one another so management has access to competencies and skills needed to manage effectively.

APPENDIX 3: SAFEGUARDS FOR RISKS WITHIN THE CURRENT EARNINGS MODEL

Figure 11 Overview of risks addressed in the current earnings model, existing safeguards and their intended effect

	Addressed risk [34]	***Safeguard***	***Intended effect***
1	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	Based on art. 2:393 CC, the general meeting is authorised to appoint the accountant; should the meeting not do so, authority will pass to the supervisory board and will only pass to management if the board decides not to do so. Under the modification proposed for the Act concerning additional measures for accountancy organisations, management will - in the future - only be able to make an appointment if there is no supervisory board. Under the Audit committee Decree, the EU audit Ordinance and the Corporate Governance Code 2016, PIE's and stock-market-listed companies are subject to additional requirements for the appointment process and the role played by the audit committee. See the requirements below. Existing provision already applicable. Modification as of 2018.	In principle, the accountant will be appointed by shareholders or the body that aims to safeguard the interests of shareholders. These bodies (the GM and supervisory board respectively) scrutinise management and thus have an interest in conducting effective audits. This means, when shareholders differ from management and/or a supervisory board is not in place to safeguard general stakeholder interests, a situation is created where accountants are appointed by the (representatives of) stakeholders. This emphasises that accountants are doing their job to serve the interests of stakeholders.
2	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	A PIE establishes an audit committee to, for example, perform the following tasks (Audit committee Decree): - monitor the statutory audit performed on the (consolidated) annual account; - notify management or the supervisory board about the results of the statutory audit, which includes explaining how the statutory audit contributed to integrity within financial reporting - evaluate and monitor the neutrality of the external accountant or the accountancy organisation, which involves overseeing the award of additional service to the legal entity;	At PIE's, the audit committee is clearly responsible for playing the most prominent role in appointing and evaluating the work of the accountant. The Decree pays closer attention to what is expected of the audit committee when fulfilling its role as instructing party. The audit committee operates in the interest of stakeholders as a committee of the supervisory board and supervises management, particularly with regards to the financial reporting process and accompanying integrity.

[34] References relate to figure 8.

	Addressed risk [34]	*Safeguard*	*Intended effect*
		- determine a procedure for selecting the external accountant or accountancy organisation and nominate a candidate so the statutory audit assignment can be issued. Applicable since 2017.	
3	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	Under the EU audit Ordinance, the audit committee is responsible for the accountant selection procedure at PIE's. The audit committee must make a recommendation for appointing an accountant, which contains at least two options as well as a well-founded preference. The proposal made to the general meeting of shareholders or the member's meeting at the audited entity must contain the audit committee's proposal and preference The Ordinance obligates accountants to issue an additional report to the audit committee, which explains the approach and results of certain topics within the performed statutory audit. Applicable since 2016.	The EU Ordinance also stipulates that the audit committee is responsible for the selection process for the new accountant. Due to its role in the selection process and the accountant's need to report to the audit committee, the audit committee clearly occupies the role of instructing party towards the accountant. It must also emphasise to the accountant that the audit committee is acting as the client (on behalf of the supervisory board and thus the stakeholders) and will hold the accountant accountable.
4	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	Corporate Governance Code 2016: The supervisory board makes the nomination for appointing an external accountant to the general meeting and monitors the performance of the external accountant (principle 1.6). The audit committee reports to the supervisory board each year about the performance of and developments in the relationship with, the external accountant. The audit committee offers advice to the supervisory board about the nomination for appointing, re-appointing or discharging the external	The Corporate Governance Code 2016 also addresses the instructing role of the audit committee using safeguards concerning the accountant's appointment, assignment formulation and reporting to the audit committee.

	Addressed risk [34]	*Safeguard*	*Intended effect*
		accountant and prepares for the selection of the external accountant (1.6.1). The audit committee makes a proposal to the supervisory board concerning the assignment issued to the external accountant for auditing the annual account. Management offers support. When formulating the assignment, attention is given to the scope of the audit, the implemented materiality and the fees associated with the audit. The supervisory board confirms the assignment (1.6.3). The main conclusions of the supervisory board, about the nomination and results of the selection process for the external accountant, are shared with the general meeting (1.6.4). Applicable since 2017.	
5	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)* Client pressure on price reduces quality. *(risk 3)*	The accountant will issue a comprehensive audit opinion for all Public Interest Bodies and other institutes to be specified by the NBA. In this, s/he provides more information on the concerns in his audit, the audit methodology, work performed and materiality maintained. (IHPB 4.5). Applicable since 2014.	Because the accountant compiles a detailed report for shareholders, emphasis is placed on the fact that the interests of stakeholders (in this case, shareholders are the largest group of stakeholders) are the main concern in the audit. Information can also be supplied to create a more intensive dialogue between the accountant and stakeholders.
6	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	The accountant actively serves as the man speaker towards all PIE's and other institutions indicated by the NBA at the GM (or other body) when explaining his/her activities (IHPB 4.5). Applicable since 2014.	Because the accountant compiles a detailed report for shareholders, emphasis is placed on the fact that the interests of stakeholders are the main concern in the audit. Information can also be supplied to create a more intensive dialogue between the accountant and stakeholders.
7	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	In the public sector, financial institutions, private healthcare and specific subsidy processes, the relevant supervisory bodies, such as NZA, DND, VNH, etc. are partly responsible for assignment formulation and the definition of audit protocols.	The accountant is issued clear standards by the user, which must be implemented during reporting. This avoids a mismatch in expectations and creates clarity as well as a reference framework.

	Addressed risk [34]	*Safeguard*	*Intended effect*
	Client pressure on price reduces quality. *(risk 3)*	The accountant always reports to the instructing party, but does so based on a framework defined by the regulatory body and requires the audited organisation to supply necessary reports.	However, people in the field suggest giving the accountant the opportunity to contact the supervisory body directly. This has not (yet) been incorporated into law. Please refer to article: Jan Bouwens, "Accountant moet zijn zorgen delen met toezichthouders" (Accountants must share their concerns with supervisory bodies), 4 November 2011. This approach is said to have the following advantage: The follow up of findings in the letter will no longer exclusively be a matter between the accountant and company management. Company management must also clearly show the external supervisory body that concrete measures are being taken for concerns identified by the accountant. Management will then also be less likely to 'discharge' unwilling accountants the year after these serious issues are raised.
8	Priority given to client interests above audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)* Client pressure on price reduces audit quality. *(risk 3)*	Introduction of supervisory board to e.g. monitor the public interest and organisation-wide aspects that influence audit quality (IHPB, measures 2.1 - 2.6) Mandatory as of 1 July 2018, already implemented by all PIE accountancy organisations.	The supervisory board must, for example, make sure the accountancy organisation pays enough attention to the public interest and focuses its auditing activities on organisation-wide aspects that have an impact on audit quality, neutrality, integrity and the interests of external stakeholders of the audit.
9	Priority given to client interests above audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)* Client pressure on price reduces audit quality. *(risk 3)*	Promoting and rewarding employees, partners and managers in a system that mainly rewards on the basis of contribution to quality (IHPB, measures 3.1-3.5) Applicable since 2015-2016.	Responsibility and quality are the main criteria for rewarding and promoting directors in the holding as well as partners and employees at the accountancy organisation. In this case, the promotion and reward arrangements aim to make sure partners and employees mainly focus on realising quality and that this is more important to partners and employees who perform audit activities than commercial performance. Irrespective of pressure from management at the audited company or budgetary constraints, the audit partner has prioritised Intended effect audit quality because

	Addressed risk [34]	*Safeguard*	*Intended effect*
			there will be personal consequences if s/he makes concessions on this front. This gives the audit partner enough reason to offer resistance against potential pressure from management at the audited organisation, to adopt a critical professional attitude and to not act in his or her personal (rewards/reputation/career) interests.
10	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	Measures aimed at realising and monitoring a quality-oriented culture, ethical behaviour and a critical attitude (IHPB, measures 1.1 - 1.4 and 5.7) Applicable since 2015-2016.	These measures make sure culture within the organisation focuses on the public interest and aspects relevant to audit quality and not being motivated by personal (rewards/reputation/career) interests.
11	Client interests prevail over audit quality. *(risk 1)* Insufficient resistance shown by accountant against the audited organisation. *(risk 2)*	Report concerning quality indicators (IHPB, measure 5.1) Applicable since 2015-2016.	Stakeholders can use the reported quality factors to form an opinion about whether the organisation sufficiently invests in aspects that are relevant to audit quality. This will also place pressure on accountancy organisations to keep these investments at an acceptable level.

APPENDIX 4: RESEARCH EXPLANATION

Public Interest Steering Committee

The In the Public Interest Steering Committee features directors from the NBA and accountancy organisations that are licensed to perform statutory audits (both PIE and non-PIE). The Public Interest Steering Committee aims to use this green paper concerning structural modelsto present an evaluation into how the accountancy sector is organised. It has done this by describing these structural models: the business model, the partner model and the earnings model.

Method

The Steering Committee would like to emphasise that this is not a scientific paper and does not claim to be complete or feature solutions for several fundamental issues. For its analysis, the Steering Committee has relied on (scientific) literature known to the Steering Committee or which was brought to its attention during the writing process. The Steering Committee also based itself on conducted discussions as well as practical experiences within audit firms. When compiling the green paper, the Steering Committee was supported by various employees from the NBA and accountancy organisations.

The Steering Committee cannot exclude being unaware of certain scientific research into the addressed structural models. As a result, we kindly invite stakeholders and other interested parties to share additional research with us in response to this consultation. Furthermore, the Steering Group realises that extra scientific research, like that currently being carried out by the Foundation for Auditing Research (FAR), can play an important role in offering further insights into issues associated with the various structural models.

The complete Steering Committee comprehensively discussed this green paper in four separate sittings. Parties that supported the Steering Committee gathered a total of seven times.

Contact with stakeholders

In order to form the most comprehensive insight possible, the Steering Committee or its representatives held discussions with a wide range of stakeholders before compiling this green paper, including various members of parliament, government bodies, professional bodies for various professions, investors, non-executive directors, accountants, scientists, employers and supervisory bodies. During these discussions, stakeholders were presented the various issues associated with these structural models and asked to share their observations and ideas about the structural models and the sector.
These discussions showed that the issues are multi-faceted, with almost every stakeholder focusing on a different facet. In addition, as already discovered by the MCA, these discussions proved that no ready-made solutions or answers are available for the complex issues associated with existing structural models. A total of 20 discussions were held with external stakeholders.

Green paper as discussion document

This green paper must only be regarded as a discussion document and a contribution to the public debate about how the sector is organised. It is in no way conclusive. The Steering Committee hopes this green paper and the subsequent reactions contribute to the improvement process already initiated by the sector. That is why the Steering Committee has included a few questions for stakeholders at the end of each chapter. Reactions to this green paper will be incorporated into a yet-to-be compiled white paper.

For further information:
Royal Netherlands Insitute of Chartered Accountants (NBA)
P.O. BOX 7984
1008 AD Amsterdam
Telefoon: +31 20 3010301
E-mail: nba@nba.nl
www.nba.nl
Twitter: @nbacc