

10th Anniversary PAOB

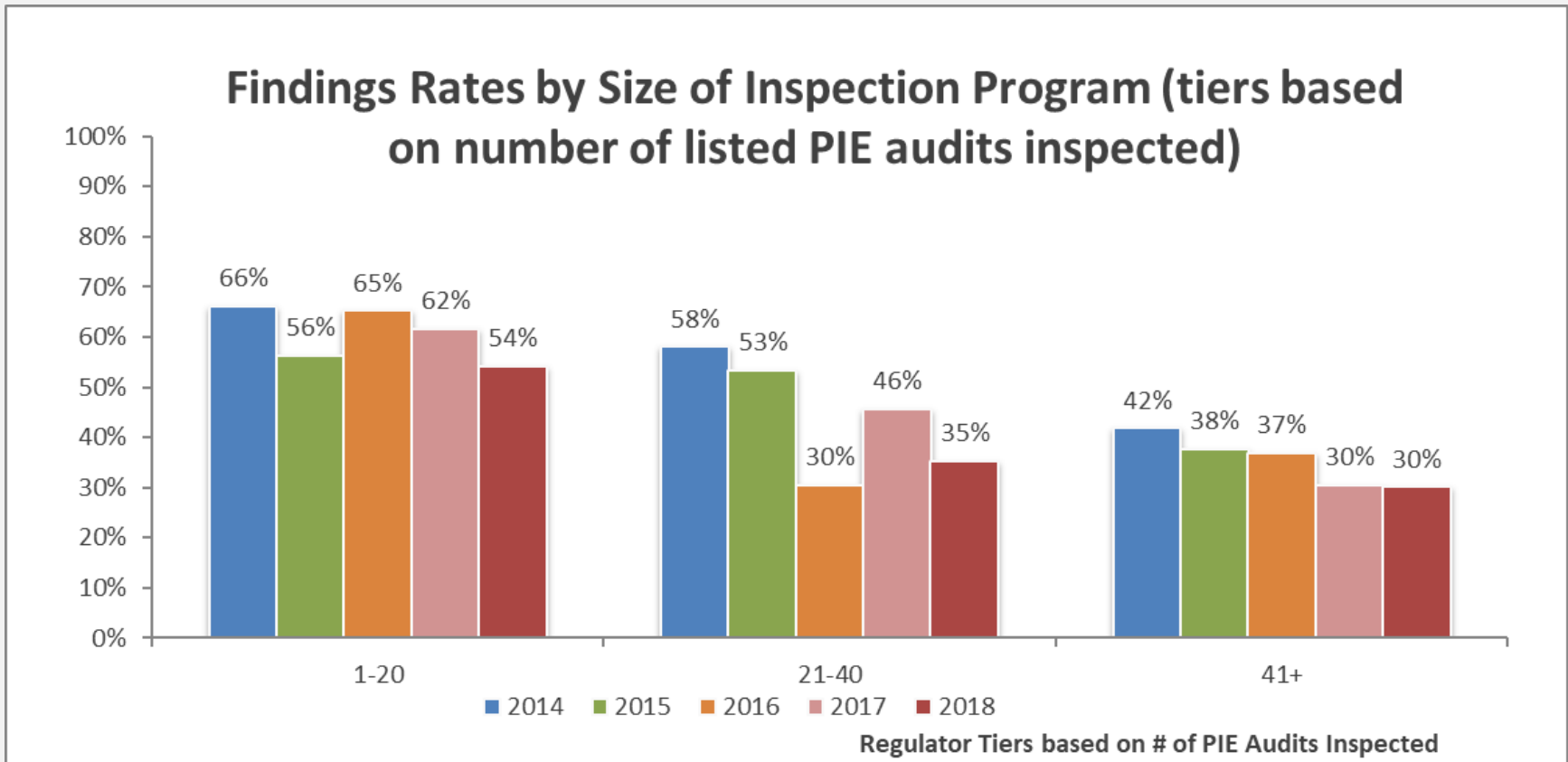
Dutch perspectives on audit oversight



Agenda

1. Global challenge
2. Overall oversight approach
3. AFM Reports – an overview
4. Inspection outcomes
5. Culture and Governance assessment
6. AFM report *“Vulnerabilities in the structure of the audit sector”*
7. Colleges of Regulators

1. Global challenge of audit quality issues and audit failures



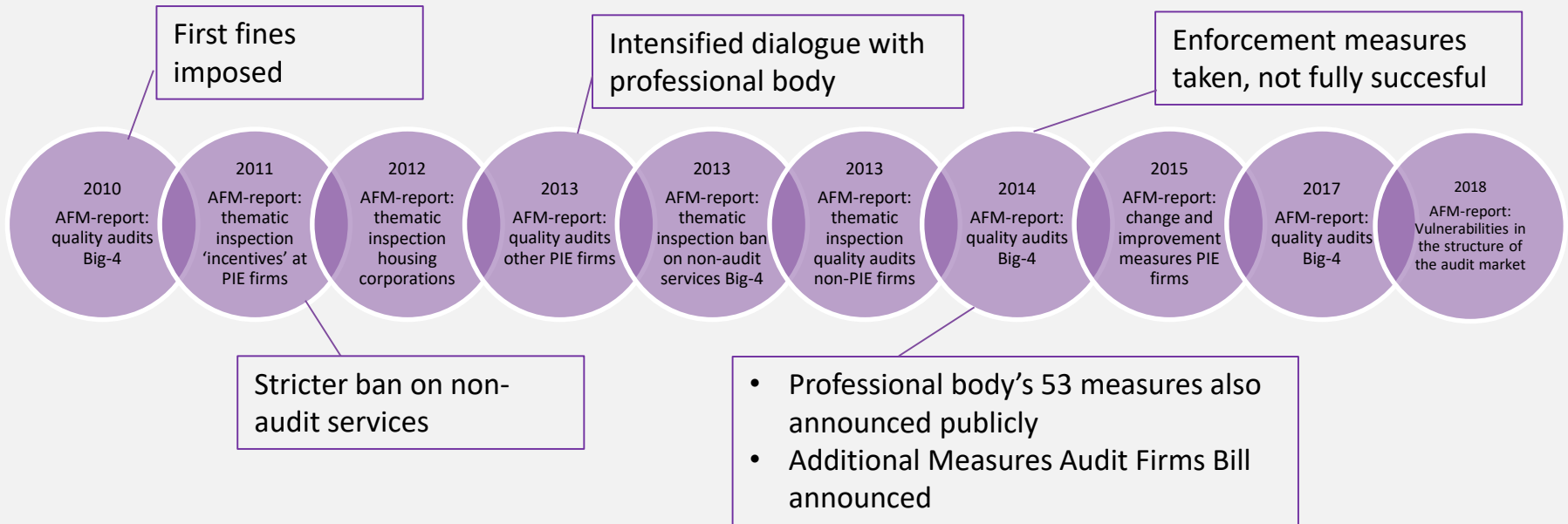
Source: IFIAR, Survey of Inspection Findings 2018

2. Overall Audit Oversight Approach

- Integrated inspections approach
 1. **Quality Assurance Inspections** (Regular and thematic inspections)
-> review of audit engagements and (elements of) audit firms' internal quality control systems = **AUDIT QUALITY ('PROOF OF THE PUDDING')**
 2. **Culture and Governance Assessments** -> Monitor of design and implementation of audit firms' change measures: culture, organisation and processes.
- Follow-up of signals and incidents ('investigations')
- General Studies, e.g. the 'Vulnerabilities in the Structure of the Audit Sector' report



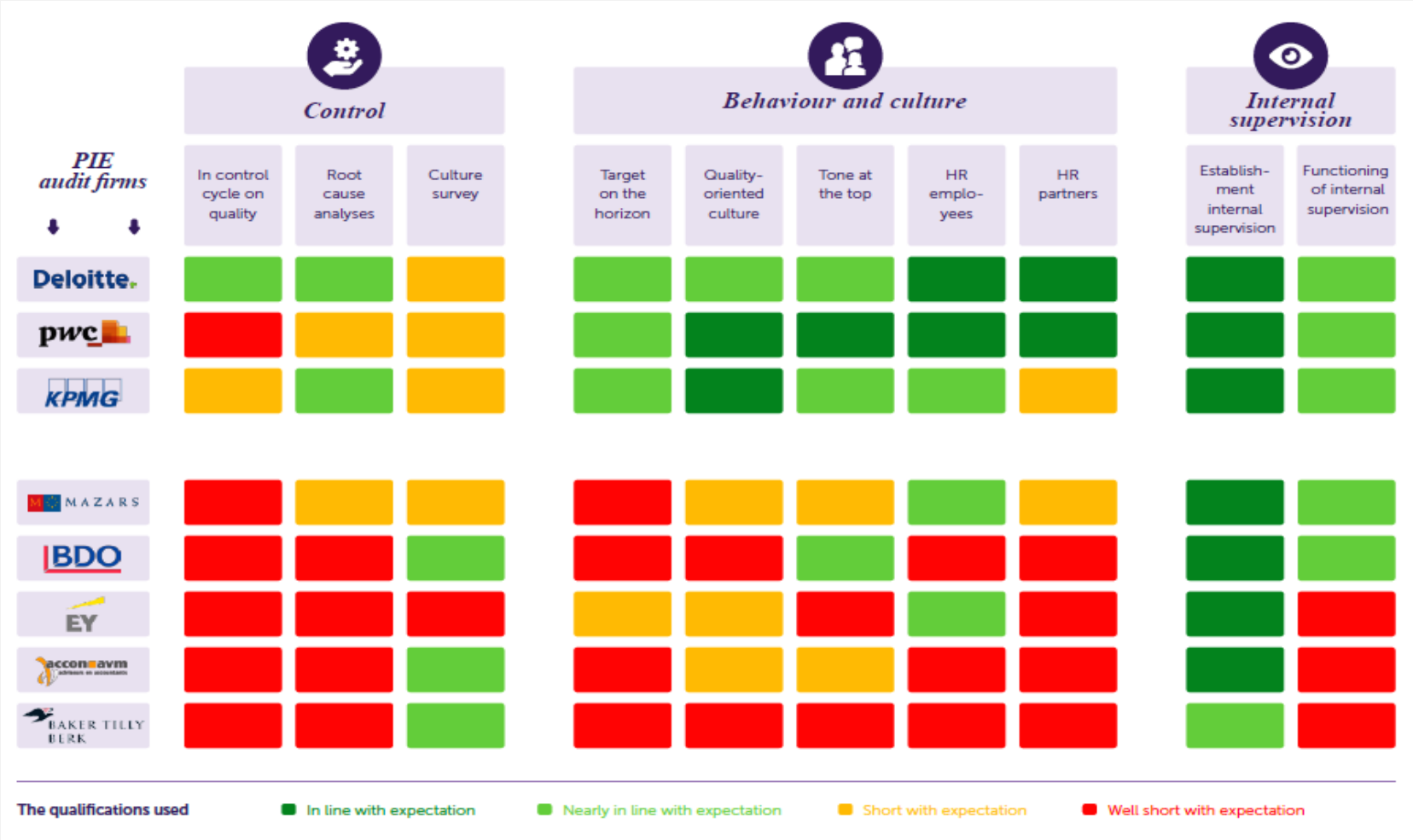
3. AFM Reports – an overview



Focus area	Regular inspection 2015 and 2016		Regular inspection 2013 and 2014	
	Number inspected	Number 'inadequate'	Number inspected	Number 'inadequate'
<i>General</i>				
Revenue	26	15	26	15
Trade receivables ⁶²	12	5		
Inventory	8	3	9	4
Intangible non-current assets (including goodwill)	7 ⁶³	1 ⁶⁴	8	6
Property, plant and equipment	3	0	2	0
<i>(Sector)specific</i>				
Tenders and procurement	5	5	4	2
Construction projects	4	4	5	3
Land development	3	2	3	2
Investments	3	0	6	2
(Technical) provisions	1	0	10	2
Equalisation payments	0	0	4	0
<i>Other</i> ⁶⁵	11	3	7	3
Total	83	38	84	39

Table 6 Elements of the audit inspected and related findings from the regular inspection in 2015 and 2016 and the regular inspection in 2013 and 2014

5. Culture and Governance assessment



6. AFM report *“Vulnerabilities in the structure of the audit sector”*



Earnings model

Conflicts of interest arising from auditors being paid by the audited entity



Business model

Conflicts of interest arising from the combination of audit and non-audit services in one firm



Partner model

Conflicts of interest arising from audit practitioners having a profit stake in the audit firm



Market supply side

The presence of market power and a moral hazard problem due to ‘too few to fail’



Market demand side

Lack of market discipline due to information asymmetries

Source 1: Demand side of the market



Indications of market failures



Indications of negative impact on audit quality

Source 2: Revenue model



Indications of market failures



Indications of negative impact on audit quality

Source 3: Partner model



Indications of market failures



Indications of negative impact on audit quality

Source 4: Business model



Indications of market failures



Indications of negative impact on audit quality






Source 5: Supply side of the market



Indications of market failures



Indications of negative impact on audit quality

-  Market organisation - demand side
-  Revenue model
-  Partner model
-  Business model
-  Market organisation - supply side



7. Colleges of Regulators



7. Colleges of Regulators

- Established for Big-4 networks
 - Large footprint in PIE-audits
 - Significance in virtually all EU markets
 - Stronger network organisations and quality controls
- Consistent objectives and coordinated approach
 - To hold the networks to account on quality and risk management
 - To share information between college members and with CEAOB/EEA NCAs
 - To better understand the networks' cultures and the impact thereof
- Regular interaction with networks
 - Annual meeting with College
 - Every 2nd year meeting with full CEAOB Inspections Subgroup

Annex - Inspection Reports

AFM publishes all its audit oversight reports in Dutch and English. A selection:

2017

[Quality of PIE audit firm: Findings of the assessment of the implementation and embedding of improvement programmes at PIE audit firms and the inspection of the quality of statutory audits at the Big 4 audit firms](#)

2015

[Dashboard 2015: changes and improvement measures \(PIE audit firms\)](#)

[Report on audit committees: review of the critical ability of audit committees with respect to financial reporting and audits](#)

2014

[Results on the inspection of the quality of statutory audits at the Big 4 audit firms](#)

2013

[Review of non-PIE audit firms \(SRA firms\)](#)

[Review of non-PIE audit firms \(NBA firms\)](#)

Annex - Other Reports

A selection of other relevant reports:

2019

[The contribution of attitude, conduct and culture to the focus on quality of the audit team](#)

2018

[Vulnerabilities in the structure of the audit sector](#)

2015

[Report on audit committees: review of the critical ability of audit committees with respect to financial reporting and audits](#)