ACHIEVING SPECIFIC IMPROVEMENTS

UPDATED AUDIT CHANGE AGENDA

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Public Interest Steering Committee

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INHOUD

FOREWORD

The Public Interest[1] Steering Committee published its audit change agenda last June. The change agenda addressed quality criteria, cause analyses, culture change and the partner and earnings model. This was the sector's way of adopting a more focused, in-depth and fundamental approach to its improvement programme. When it was published in June, the steering committee said the agenda would be 'continuously evaluated and supplemented, so a continuous improvement process could be achieved'.

In June, the Netherlands Authority for the Financial Markets (AFM) published its report containing supervisory findings from 2014-2015 audit dossiers at the four largest auditors. The AFM report also addressed how improvement measures have been implemented and embedded, as well as already initiated changes in relation to control, culture & behaviour and internal supervision at PIE firms. In early September, the disappointing results gave the Lower House cause to demand faster and more visible results.

That is why the Public Interest Steering Committee decided to update the change agenda as follows:

1. Improve cohesiveness between the various sections of the change agenda (a more integral approach);

2. Broaden and enhance the process and accelerate it wherever possible;

3. Improve transparency by increasing 'stakeholder participation in the process'.

The actions formulated in June have remained the same, but several additional actions have been added to the updated agenda based on the areas highlighted above.

The steering committee realises that the sector is under great pressure to quickly achieve tangible results. It understands the demands of politicians and society and will intensify and accelerate the change process wherever possible. However, this should not come at the expense of enhancement and sustainability. The steering committee acknowledges the importance of a change process that is supported by the sector, directors and professionals in the workplace. This is the only way to achieve lasting structural improvement.

[1] The main accountants' organisations (PIE licence holders), the SRA and NBA have joined forces in the Public Interest Steering Committee.

1. LOGICAL COHERENCE

A cohesive change agenda is essential if the improvement process is to be successful and it is important for the various steps to logically interact with each other. This must result in sustainable change after the root causes of problems have been addressed using thorough cause analyses and specific measures. An integral change agenda must therefore feature the following four elements:

1. A clear and widely supported definition of the problem (which problem are we resolving?)

2. A thorough and widely supported analysis of the root causes (what are the root causes of the problem?)

3. A set of measures that aim to tackle and prevent identified root causes (which measures must we take to address the root causes?)

4. Clear and collectively defined objectives (what results do we want to achieve?)

These four elements have been shown in the diagram below and described in the following paragraphs.

Integral change agenda: from problem to results

Change agenda

Problem definition | **Root cause analysis** | **Measures** | **Result**
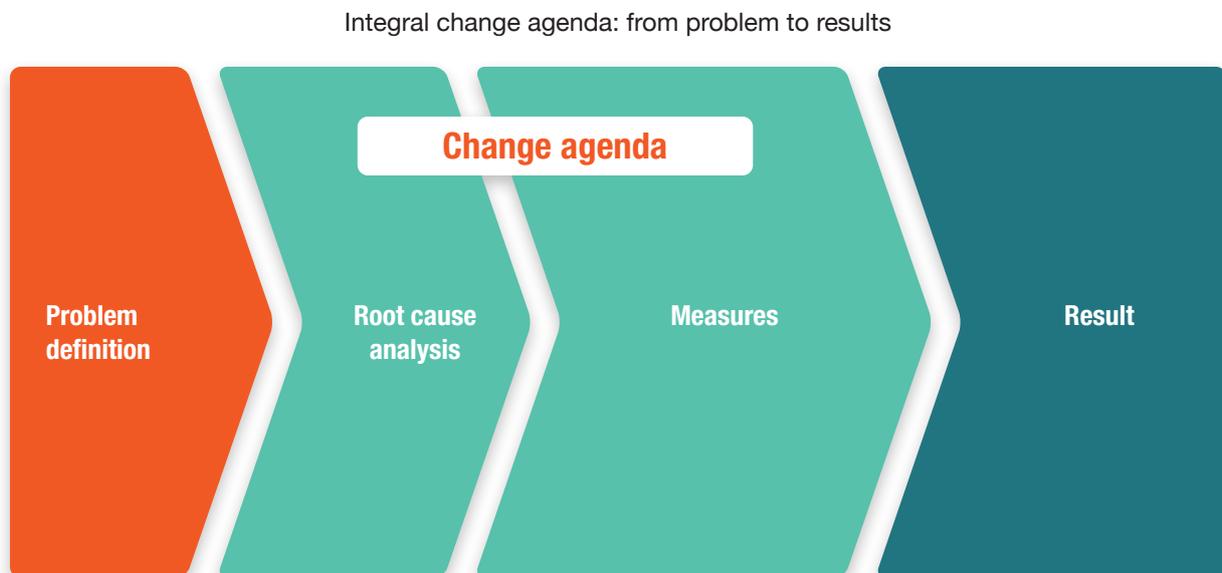
2. THE RESULTS WE WANT TO ACHIEVE

The change agenda and the 53 measures will have been successful if we manage to earn the public's trust by achieving the following results:

1. A significant improvement in audit quality

2. Improved social impact and relevance

Of the two, improving quality is the most urgent objective. Time and time again, dossier reviews by the AFM have shown that audit quality is still sub-standard. This has resulted in public indignation and reduced confidence in the profession. The sector believes all doubts about the quality of its work must be banished.

An integral change agenda must therefore focus primarily on improving quality and on a culture and organisation structure that creates the conditions needed to achieve this.
The intended quality improvement will be measured via internal reviews, but will eventually be evaluated by the AFM (PIE licence holders), the SRA and the Supervisory Board at the NBA (non-PIE licence holders), as well as the Accountancy Monitoring Commission.

Improvements in audit quality alone will not be enough to restore the public's trust in the accountancy sector. That is why the steering committee has opted for a more comprehensive change agenda, which attempts to honour the social role of the accountancy profession. Besides quality improvement, this change agenda also focuses on the public interest and the profession's social impact. The steering committee wants to use the two latter components to establish more intensive dialogue and interaction with stakeholders in society, whereby it will primarily concentrate on two areas closely related to the impact of the profession: fraud and continuity.

The diagram shows the phases of the improvement process in greater detail. In this case, the public's trust will be restored via the effects mentioned: significant improvement in quality and social impact.

Integral change agenda: restoring trust
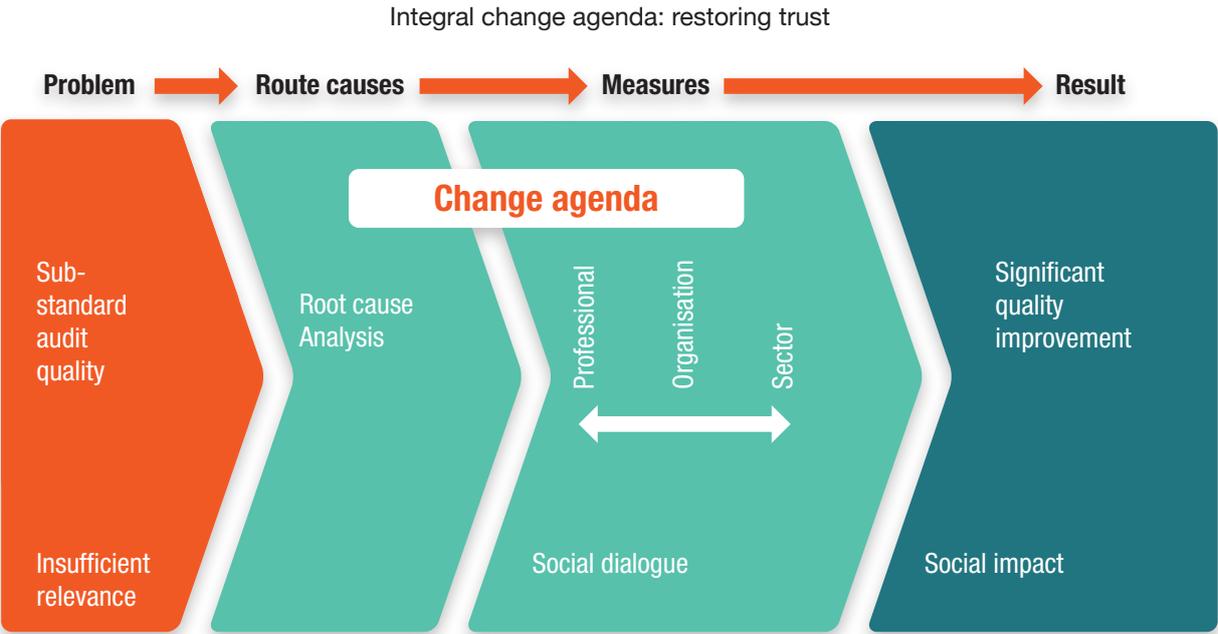
3. INVESTIGATION INTO ROOT CAUSES

The four largest audit firms recently shared their root cause analyses with each other, so they could be made available to the sector. The root cause analysis is based on internal interviews and offers an insight into the main drivers for quality.
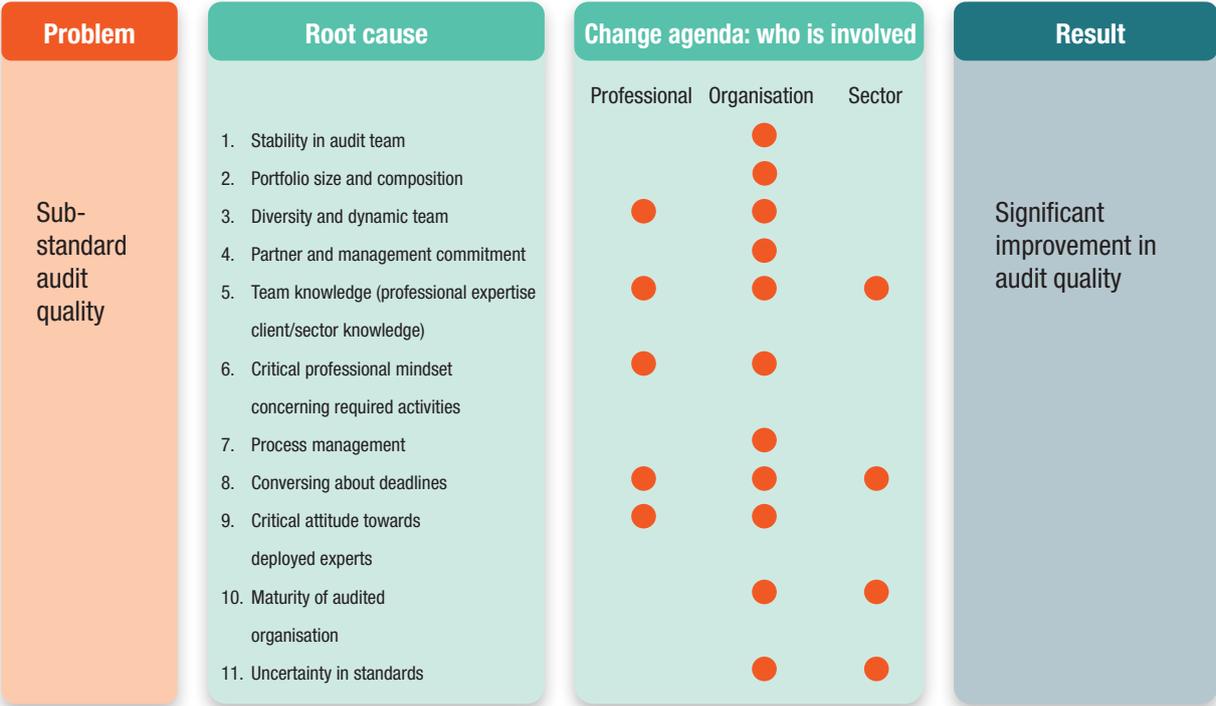The root cause analysis is an important tool for better managing improvements. We now know which causes need to be addressed and which measures could be effective. The root cause analysis therefore plays an important role in determining the content of the change agenda when it comes to improving quality and realising the accompanying culture.

The diagram below shows a summary of the main root causes[1]. Many of these causes have already been regularly mentioned by supervisory bodies in the public debate. However, these causes:

- Have now been investigated by the firms concerned themselves;

- Are based on analysis methodology that is embedded into regular business processes;

- Have been shared and acknowledged
  and therefore form the basis for a collective approach.

The diagram below shows the level at which causes must be addressed: by professionals (knowledge, skills), the organisation (methods/culture) and/or the sector. The root cause analysis hereby guides the change agenda when it comes to realising a quality-oriented culture. The diagram below shows that organisations play a central role in the change process.

Quality-related issue: root cause analysis

Problem	Root cause	Change agenda: who is involved			Result
		Professional	Organisation	Sector	
Sub-standard audit quality	1. Stability in audit team		●		Significant improvement in audit quality
	2. Portfolio size and composition		●		
	3. Diversity and dynamic team	●	●		
	4. Partner and management commitment		●		
	5. Team knowledge (professional expertise client/sector knowledge)	●	●	●	
	6. Critical professional mindset concerning required activities	●	●		
	7. Process management		●		
	8. Conversing about deadlines	●	●	●	
	9. Critical attitude towards deployed experts	●	●		
	10. Maturity of audited organisation		●	●	
	11. Uncertainty in standards		●	●	

[1] The collective root cause analysis features ten 'drivers' for audit quality. The diagram above features an eleventh cause, namely 'uncertainty' in standards', which has been added by the professional body

4. BROADEN AND ENHANCE

The root cause analysis was used to review the change agenda formulated in June. The review showed that additions to the initial change agenda were needed.

This resulted in the following additions (project numbers refer to (intended) projects in the diagram below):
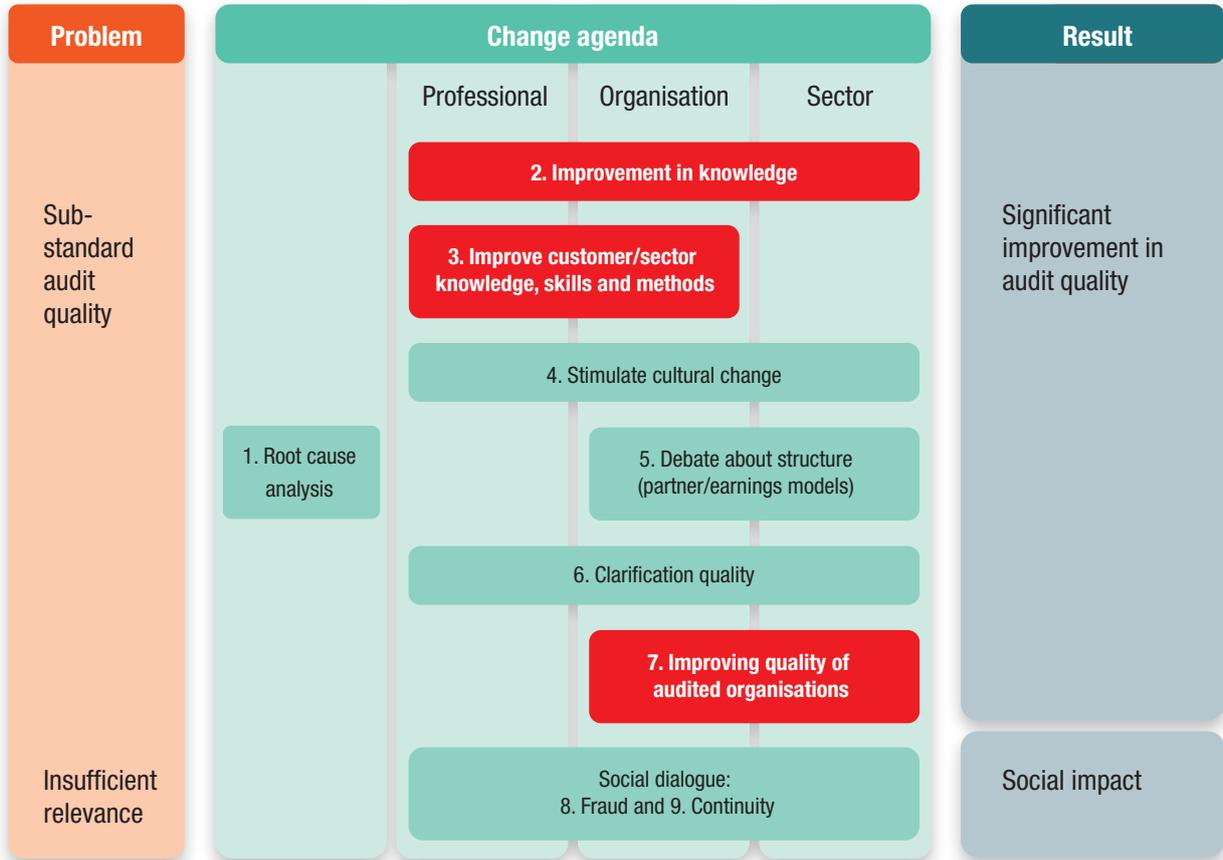
- **Professional expertise development programme** (project 2).
  A development programme by firms and the NBA, which focuses specifically on professionals and support functions within organisations.

- **Improving team knowledge and skills** (project 3)
  This relates to measures that improve the knowledge and skills of professionals.

- **Improving organisation of audit client** (project 7)
  A two-part programme which, on the one hand, focuses on improving quality-related awareness among audit clients when it comes to their administrative organisation and, on the other hand, iden-tifying the (increasing) risk of organisations no longer being able to find an accountant. Naturally, the latter also involves compiling scenarios so risks can be mitigated. The NBA plays a leading role on this front.

In addition, the culture programme is also being enhanced (project 3). By incorporating the previously mentioned causes into the change approach, it is possible to create an environment that helps to facilitate sustainable change. Directors and managers will be key players in this regard.
The four largest audit firms have explicitly expressed their desire to support other PIE licence holders and the non-PIE segment when implementing a quality-oriented culture, which will also involve sharing their 'good practices'.

The updated programme has been shown in the diagram below, with additions to the original programme highlighted in red.

Integral change agenda: what and for whom?

Problem	Change agenda			Result
	Professional	Organisation	Sector	

Problem

Sub-standard audit quality

Insufficient relevance

Change agenda

Professional | Organisation | Sector

2. Improvement in knowledge

3. Improve customer/sector knowledge, skills and methods

4. Stimulate cultural change

1. Root cause analysis

5. Debate about structure (partner/earnings models)

6. Clarification quality

7. Improving quality of audited organisations

Social dialogue:
8. Fraud and 9. Continuity

Result

Significant improvement in audit quality

Social impact

5. LIMITATIONS AND DILEMMAS

An effective project design, based on a thorough problem analysis, will not automatically guarantee results because the surroundings change too often and the issues encountered are too difficult to manage. The steering committee has therefore adopted a realistic view concerning progress, whereby restricting factors have also been taken into consideration. There is no need for a 'good news show'; the most important thing is to create transparency about the actual situation.

Without detracting from the intended effects, it is good to realise that the time line and the adopted approach are difficult to predict. In fact, every intrinsic process involving changes in behaviour and culture takes longer to implement than the organisational measures themselves. The dependencies in each project will be highlighted when the change agenda is further specified.

The steering committee has taken the following obstacles into account for the change process:

- **Finding the right approach**
  The results or outcomes of in-depth discussions about topics such as fraud, partner and earnings models or quality (rightly referred to as 'wicked problems' by the Accountancy Monitoring Commission) cannot be determined in advance. There is no blueprint; one must simply use the intended result to find a suitable approach based on appropriate resources.

- **Developing competences for change**
  Accountants tend to be well qualified and determined professionals, who possess the skills needed to exercise their profession. This also applies to accountants that help to run organisations in management positions. But the profession does not have the natural competences to manage and support large-scale change processes. This leads to reliance on external expertise, on the one hand and the need to develop change-related competencies on the other hand. As a result, it takes a long time to implement such processes throughout organisation.

- **Change capacity in short supply**
  Sustainable change cannot be imposed by an external body, but must be introduced by professionals capable of understanding the intricacies of the surrounding organisation. However, these professionals are scarce and are also relied upon for complex and urgent assignments. Considering this scarcity, it is not always easy to allocate enough professionals to the change agenda, which means it is important to weigh up all interests.

- **Limited perseverance**
  Audit firms, the SRA and NBA are all working together in the steering committee to achieve the intended change. The sector believes it is important to join forces, although there is also a downside to this approach. Decision-making requires consensus between parties that all have their own powers and responsibilities. This is complicated further by the fact that both NBA and SRA play an intermediary role towards their members. For instance, extra time is needed to mobilise and initiate debate in, the non-PIE segment.

The steering committee also acknowledges the 'wicked problems' identified by the Accountancy Monitoring Commission. This relates to problems or themes which are 'very difficult to discuss and/or resolve', namely:

1. The earnings and business model
2. The partner and internal calculation model
3. The balance between client and public interests
4. Fraud
5. Quality
6. Market regulation and market forces

The steering committee wants to use the change agenda projects to discuss and address these dilemmas. The diagram below shows projects that focus on these sector dilemmas.

Sector dilemmas

6. WHY IT SHOULD WORK

Audit firms and professional bodies have been trying to improve audit quality for many years. Unfortunately, the intended outcome has yet to be achieved. Considering the highlighted obstacles and dilemmas, why is this new attempt more likely to succeed?

Because the current change strategy addresses factors that were not addressed, or insufficiently addressed, in the past. For instance, a more integral approach to the issue has now been adopted, with logical coherence between root causes, measures and effects.

An i**ntegral agenda** is not the only prerequisite for an effective change process. Other guarantees for better results include:

- Commitment from directors of PIE licence holders and the NBA (via the Public Interest Steering Committee) to **jointly manage** the change agenda;

- Desire and willingness of directors to **share knowledge** (good practices, lessons learned) via structured programmes: root cause analyses, improvements in skills, knowledge and methods and cultural change.

- Focus on **intrinsic change** by placing emphasis on behaviour and culture. Recognition by directors and managers that their roles and responsibilities are crucial within this process.

- **Project organisation** where audit firms and professional bodies work together and periodically report about progress under supervision from the steering committee.

These conditions have been met via the change agenda and the intended change process.

APPENDIX 1:
PROJECT STATUS CHANGE AGENDA

Oktober 2017

Project	Assignment	Planning and execution		
1 Root cause analysis	Completed	Root cause analyses shared with firms	Shared root cause analyses published	
2 Professional expertise development programme	Being prepared			
3 Improving team /process skills	Being prepared			
4 Quality-oriented culture	Being prepared			
5 Structural models	Completed	Green paper being prepared		
6 Quality criteria	Completed	Publication green paper	White paper being prepared	
7 Client quality audit	Being prepared			
8 Fraud	Being prepared			
9 Continuity	Completed	Green paper being prepared		

(further details via the website)