First experiences with licensing process in the Netherlands

Scheveningen, September 6, 2007
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Background of licensing

• Access to the Dutch statutory audit market requires a license for the audit firm

• Main aspects
  – Management and other day-to-day policy makers
    • Integrity test
  – Internal quality control system
Background of licensing

– Internal quality control system: main topics
  • ‘Tone at the top’: conduct and communication
  • Client/engagement acceptance and continuation: consider the integrity of the client and the firm’s own competence to perform
  • Independence: sufficient safeguards and compliance
  • Engagement quality control review: objective evaluation before the auditor’s report is issued
  • High quality audits: story of the audit
  • Documentation: audit files
Background of licensing

- PIE license: audit of listed companies, credit institutions, insurance companies and all other statutory audits

- non-PIE license (other statutory audits)
Approval process (1/2)

- Self-assessment
- Integrity test
- On-site inspection
  - Focus on quality control system
    - Design
    - Operational effectiveness tested by review of various audit files and branches
  - Compliance function
  - Audit files
Approval process (2/-)

- 18 applications for PIE license
- Approx. 675 applications for non-PIE license
- Electronic application procedure
- PIE licensing by October 1, 2007
- Non-PIE licensing by October 1, 2008
First outcomes

Firms have put substantial effort into improving quality control systems
First outcomes

In general, level of compliance related to size of audit practice of a firm; firms with a substantive audit practice comply significantly better

• Reasons?
Reasons?

• (Economic) interest
• Effort
• Culture
• Skills
• Specialization
• Attitude: professional scepticism