

# View on Supervision 2021+

Supervisory Board of EY Netherlands /  
Supervisory Board of EY Accountants

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# 1 Introduction

In the view of the wish to establish a supervisory board at the level of Ernst & Young Nederland LLP, which is to protect the interests of EYNL, its affiliated enterprise and professional practices (hereinafter: **EYNL**) as well as the public interest to guarantee the quality of legal controls, EYNL established a supervisory board as from 1 July 2015 (hereinafter: the **SB EYNL**).

A second supervisory board was subsequently established at the level of Ernst & Young Accountants LLP (hereinafter: EYA). The members of the EYNL SB and the EYA Supervisory Board (hereafter, the EYA SB) form a personal union. The duties and powers are laid down in two regulations of the EYNL SB and EYA SB, respectively.<sup>1</sup>

The duties of the Supervisory Board are aimed at fulfilling the three roles of a supervisory board (the supervisory role, the employer role and the advisory role) and are in accordance with the Audit Firms (Supervision) Act (*Wet toezicht accountantsorganisaties*, hereinafter: Wta). The powers include the appointment of policymakers (EYNL and EYA), a limited review of the appointment of external auditors (EYA), the approval of the quality policy and the assessment of the adequacy of the budget for quality investments (EYNL and EYA).

The EYNL SB has an Audit & Risk Committee (ARC) and a Talent & Remuneration Committee (TRC). The EYA SB has four committees; in addition to an Audit & Risk Committee and a Talent & Remuneration Committee, it also has a Public Interest Committee (PIC) and an Assurance Quality Committee (AQC).

As stated above, the supervisory boards form a personal union and meet jointly, including in the committees. The specific position of EYA as license holder pursuant to the Wta is reflected not only in the agenda of the latter two committees in particular but also in the separate meetings of the Supervisory Board with the EYA Board (in addition to those with the Board of Directors of EYNL). Viewed from the perspective of the Wta, the coherence in the internal supervision of EYNL and EYA lies in the fact that the EYNL Board of Directors are also policymakers for EYA and that the quality control for EYA is partly based on the quality organization of EYNL and the quality requirements of EY Global. In this context, the present view on supervision focuses in particular on EYA, but not exclusively. Viewed from the perspective of the firm, there is a responsibility of EYNL for the purpose of the organization, at the global and European network level, for the reputation of EY as a whole and for coordination of common resources and structures.

Following the establishment of the Supervisory Board and the first years of its operation, it is taking the next step in its development by expressly stating its view on its supervisory function in further detail in this document. In doing so, it is keenly aware of the duality of EYNL and EYA as indicated above.

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<sup>1</sup> See [www.ey.com/nl\\_nl](http://www.ey.com/nl_nl).

The supervisory framework within which this view on view on supervision has to be placed, is formed by four principles:

- ▶ EY's global purpose, *building a better working world*, which expresses clients' and stakeholders' interests alongside the public interest in a general sense, as detailed in the global strategy *NextWave*.
- ▶ The public interest that is specific to EYA to ensure the quality of statutory audits pursuant to the Wta and other applicable laws and regulations and to achieve the quality objectives of a public interest entity in accordance with this.
- ▶ The Dutch corporate governance code, considering the legal form of EYNL and EYA.
- ▶ The strategy and priorities of the EYNL Board of Directors and the EYA Board to adhere to the aforementioned principles.

The EYNL Board of Directors and the EYA Board provide the Supervisory Board with the information that is necessary to perform its supervisory function within this framework based on an annual agenda. The Supervisory Board already (publicly) reports annually on its activities. Beginning in the 2021-2022 financial year, the Supervisory Board will incorporate this view on supervision in its annual reporting and address, among other things, the Supervisory Board's method of impact.

This view on supervision comprises four multi-year focus areas and concludes with priorities for the 2021-2022 financial year. This document is a first test in the sense that the Supervisory Board aims, after having acquired two years of experience with this view on supervision, to evaluate this view's operation and to develop it further on that basis.

## 2 Promoting good governance of EYNL and EYA

EY is a global network organization with a common strategy and execution - it is not a collection of national practices. Each member firm is an independent legal entity, however. The local member firms are clustered in regions and are coordinated at that level for market approach- and synergy benefits. The Global Executive is responsible for global leadership and governance and oversees EY's global strategy, brand, investments and priorities. EY has opted for this streamlined structure to enable it to respond effectively to global trends, make quick decisions and execute its strategy everywhere. Countries and businesses around the world relate to each other through knowledge, technology, trade and investment. Clients can count on consistent high-quality services in all countries where they do business, to be ascribed to EY's finely meshed structure.

EY in the Netherlands consists of several legal entities. The principal legal entities are:

- ▶ Ernst & Young Nederland LLP ("EY Nederland/ EYNL", this entity safeguards the common interests and cooperation between the service lines).
- ▶ Ernst & Young Accountants LLP ("EYA", with the Assurance service line).
- ▶ Ernst & Young Belastingadviseurs LLP ("EYB", with the Tax & Law service line).
- ▶ EY Advisory Netherlands LLP ("EYAN", with the Consulting and Strategy & Transactions service lines).

The last three entities are owned by the professional partnerships of the partners ("members") from the relevant EY service lines in the Netherlands. These members are also members of EYNL. EYNL coordinates and facilitates EY's activities in the Netherlands but does not provide services to clients itself.

Ernst & Young Accountants LLP is licensed by the Netherlands Authority for the Financial Markets (AFM) to perform statutory audits, including statutory audits of public interest entities.

The Supervisory Board focuses in particular on the interaction between EYA and EY's other activities in the Netherlands, monitoring the consequences for the quality of the audits performed by EYA, the safeguarding of the public interest by EYA, and the ethical and controlled operational management. The Supervisory Board has formal powers (of approval) in this regard.

The Board of Directors of EYNL is responsible for the policy and reputation of EY in the Netherlands. The coordinating leadership of the Board of Directors is focused on optimizing and implementing the enterprise's joint direction and stimulating the joint performance of the service lines and cooperation.

With currently approximately 4,500 employees, four service lines (Assurance, Tax & Law, Consulting, Strategy & Transactions), being part of a global network, EY Netherlands serves a broad and diverse set of companies and organizations, non-profit and profit, large and small, both in the Netherlands and abroad.

The responsibility for the service lines in the Netherlands lies with the management teams of the service lines and ultimately with the EYNL Board of Directors. Given the size and versatility of the firm and the public interest, that responsibility is substantial internally as well as externally.

The EYA Board has a particular responsibility, namely for the audit firm as referred to in the Wta. The members of the EYA Board are daily policymakers as referred to in the Wta. The members of the Board of Directors and the Supervisory Board are (co-)policymakers.

*The Supervisory Board is aware of this governance structure, including the international embedding, and sees it as its responsibility to promote and oversee the proper functioning of the EYNL Board of Directors and the EYA Board, including in connection with its responsibility for appointments, suspensions and dismissals, and with its advisory role. In particular, the Supervisory Board will internally supervise the EYA Board regarding the latter's responsibility for relations with the regulator, and both the EYNL Board of Directors and the EYA Board in their relations with public and other stakeholders.*

*The requirements of propriety and fitness that apply by law to the members of the Supervisory Board have been translated into the profile of the Supervisory Board. Independence and transparency in position and judgment are core elements of this profile. The Supervisory Board actively promotes propriety, fitness, independence and transparency internally and externally: "tone at the top".*

### **3 Public interest function of audit firm EYA and long-term value creation of entire enterprise of EYNL**

At its core, EYA's public function is embodied by the independence of and trust in the assurance procedures and audit opinions (in accordance with the Wta). To this end, the quality and independence of audits have been strengthened and reinforced in recent years based on internal quality incentives and initiatives, laws and regulations, AFM investigations and relevant sector reports such as In the Public Interest ('*In het publiek belang*') by the Netherlands Institute of Chartered Accountants (NBA).

This is an essential part of long-term value creation for society, for the organizations served by EY, and for the EY firm organization itself.

*The Supervisory Board oversees the implementation of the public interest of the audit firm.*

Promotion of the public interest of the audit firm will continue to develop in the years ahead. For example, there is an explicit focus within Assurance on non-financial information and non-financial

indicators, consulting and tax and legal advice (Tax & Law) require compliance with integrity and transparency standards that are continuing to crystallize, and the ongoing development of the European regulations in many areas will provide more mandatory direction to national legislation for sectors in which EYNL and EYA operate.

The discussion about the future of the accounting sector that has been ongoing for some time (Committee on the Future of the Accounting Sector (CFA), Quartermasters) is set to continue or start in other countries and in the context of the European Union as well. This requires a robust vision for the development of the future of the field and the organization of the business.

*The Supervisory Board will encourage the EYNL Board of Directors and the EYA Board to pay sufficient attention to this, focusing on the longer term, and concentrating on fundamental reflection on various possible and desirable developments.*

In its strategy of long-term value creation (*building a better working world*), EY focuses on client value, people value, social value and financial value. In that connection, EYNL is committed to public themes, such as diversity, social inclusiveness and sustainability in its work and in its own organization. EYNL focuses on various economic sectors, including organizations in the semi-public and public sectors as reflected in the initiative aimed at these sectors named EY Society (network and platform). Commitment by EY employees to social activities is explicitly encouraged.

*The Supervisory Board provides broad-based support to the Board of Directors on these public themes within EYNL, and within EYA, and ensures that sufficient time and financial resources are available for this and that appropriate internal and external visibility for this is provided.*

All these matters of public interest can be prepared in the Public Interest Committee, and are the subject of discussion by the Supervisory Board with both boards.

## **4    Oversee quality policy, risk management, and ethical and controlled operational management of EYA in conjunction with EYNL**

A system of quality control is in place for EYNL as a whole. For EYA, this is in place in accordance with the Wta and the Audit Firms (Supervision) Decree (Bta) in particular, and is set out in a Quality Policy. This details the quality agenda, quality system, governance and leadership, risk analysis, ethical standards and monitoring, among other things. This is all based on international quality requirements (ISQM), the duty of care under the Wta and Regulations for Quality Management Systems (NVKS) of the professional organization.

The Supervisory Board promoted the detailed implementation of the three lines of defense model within EY Netherlands. This model provides the structure to safeguard good governance and compliance by the organization. *The Supervisory Board encourages and monitors the maintenance of the quality policy in accordance with this model* and that primarily the service lines and partners working in them implement the system of quality control (first line), supported by the expertise of the second line consisting of, among others, Risk Management, Independence, AML Office, Data Protection Office and, within EYA, also Quality Assurance (second line). The third line, Internal Audit, has a direct line to the Supervisory Board.

In addition to supervising the system, *the Supervisory Board ensures it is informed regularly of signals and incidents*, supported by deep dives and root cause analysis where appropriate.

The *Supervisory Board continues to ensure* that the further development of quality standards for the assurance practice, also as part of the discussions on the future development of the accounting sector, is supported and implemented by the Board and partners.

Audit firms must organize their operational management in such a way that it is sound and ethical. Combating integrity violations and breaches of the law such as money laundering, fraud and suspicious (financial) transactions (in line with Wwft and Wft) is a priority. *The Supervisory Board will systematically discuss with the EYA Board the state of ethical and controlled operational management in general and these priorities in particular.*

In addition to these priorities for EYA, *the Supervisory Board promotes* the quality policy of EYNL as a whole.

The Assurance Quality Committee of the Supervisory Board focuses primarily on quality of Assurance services to clients; the Audit & Risk Committee focuses on the ethical operational management and risk management within EY.

## **5 Care for people, development, culture and behavior, diversity and inclusiveness at EYNL and EYA**

It is the people of EY - at all levels, connecting with each other in EYNL and in EY's global network - who make the difference. They add value to EY's clients, they work to strengthen the public interest in word and deed, they shape EY's inclusive and diverse values. In an organization of about 4,500 people, with significant annual inflow, advancement and outflow, with both an average young age of employees and the extensive experience of (associate) partners, this requires continuous attention and development. Talent (HRM) is therefore assured at the level of the EYNL Board of Directors as well as the EYA Board. There is a thoroughly considered cycle of training, development and assessment.

Culture and behavior are essential for a quality-oriented organization of EYNL in general and for safeguarding the public interest in the quality of statutory audits by EYA in particular. This is promoted and monitored within EYNL and EYA through the Pulse program.

*The Supervisory Board systematically puts the theme of culture and behavior on the agenda, the Pulse program. The Supervisory Board supervises the Board on EYNL's Talent policy; in particular, it calls for attention for diversity & inclusiveness and for culture. The Supervisory Board discusses leadership development for the level of (associate) partner partly also with a view to the timely availability of candidates for board succession. This is the focus area of the Talent & Remuneration Committee.*

## 6 Annual priorities

In principle, the view on supervision inherently applies for a longer period of time, on a multi-year basis. The Supervisory Board has an annual calendar for its meetings and other activities, in which the topics deriving from the four principles as outlined earlier, are addressed (mirroring the priorities of the EYNL Board of Directors and the EYA Board, in line with the targets arising from NextWave), as well as topics that are required to be addressed pursuant to laws and regulations and corporate governance guidelines.

For the 2021-2022 financial year, the Supervisory Board will focus, within these, particularly on the functioning of the new boards following the personnel changes as of this financial year, on the follow-up of and reporting on the priorities of the boards, on developments related to post-Covid issues such as hybrid working and the continued adherence to financially prudent policies where necessary, on the developments in the accounting sector (partly based on the findings of the AFM and the advice of the 'Coordinators on the Future of the Accounting Sector' (Kwartiermakers Toekomst Accountancysector)), on the execution of the quality policy and of risk management (implementation of ISQM 1, Signals & Incidents program), on diversity, social inclusion and ESG, and lastly on the position of EYNL and EYA within the newly formed Europe West region of EY Global.

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