



# Transparency report 2014

Ernst & Young Accountants LLP  
The Netherlands



**EY**

Building a better  
working world

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# Volume 1

## Country managing partner's letter



Welcome to Ernst & Young Accountants LLP's 2014 Transparency Report. We are pleased to provide you with information about the significant investments we have made in audit quality this year and the quality initiatives we have launched. We appreciate that our stakeholders want to understand what we do to advance audit quality, manage risk and uphold our independence as auditors.

Executing audits in a high-quality manner continues to be our number one priority and is at the heart of our ability to serve the public interest. It will allow us to grow EY successfully, consistent with EY's ambitions for the future as expressed in Vision 2020, with our global strategy and with the purpose we have articulated: building a better working world. Auditors play a vital role in the efficient functioning of our capital markets through promoting transparency and supporting investor confidence. Companies, regulators and other stakeholders count on us to deliver quality and excellence in every engagement. EY is investing in tools to improve audits performed by its member firms, creating the highest-performing teams, and focusing on building trust and confidence in the audits we perform. We will also continue to invest in our culture and our people. The mindset and skills of auditors are key to the quality of audits.

Regular dialogue with our stakeholders remains a priority for us. During the past year, I have spoken to many of our people and our stakeholders about the investments we are making as part of our new strategy. My colleagues and I in the Netherlands are very excited about our renewed sense of purpose, as are many of our clients and other stakeholders – who have responded positively to our plans for the future. Thank you to all of you who have taken the time to share your views with us in 2014.

I look forward to continuing to work with you and share our progress over the coming year. I encourage investors, audit committee members, companies, regulators and all our stakeholders to continue to engage with us on our strategy as well as any of the matters covered in this report. We hope you will read it with interest.

Rotterdam, 30 September 2014

Marcel van Loo  
Country Managing Partner  
EY The Netherlands

*Our purpose: Building a better working world*

EY is committed to doing its part in building a better working world.

The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

## Message from the Assurance leader



Over the last few months, the efforts in the Netherlands to improve and enrich our profession received a new boost. During the summer, the Working Group Future of the Audit Profession (*Werkgroep Toekomst Accountantsberoep*) discussed proposals to improve the quality of audits in our country. As a member of the Steering Group (*Stuurgroep Toekomst Accountantsberoep*) overseeing their work, I had first-hand experience of the drive and enthusiasm invested in these efforts.

I am convinced that this initiative of our professional organization NBA indeed will contribute to better audit quality and more public trust. More in general, the many legal, regulatory and cultural changes to the audit profession in The Netherlands have helped, by and large, to raise audit quality. Society at large rightly expects us to deliver high-quality audits. Because the public interest comes first in our profession, public trust in our work is vital. Therefore, when the users of annual reports lose trust in us and in our audits, we have to restore this trust. Delivering top quality audits is the first, essential condition for meeting this challenge.

### Improving quality, a never ending project

In my opinion, culture and people should be our main focus in the endeavor to further raise the quality of our work. Next to state-of-the-art audit tools, the mindset and skills of auditors are the most important factor determining the quality of audits. Auditors should constantly and almost instinctively know and feel that 'striving for high quality' is the right thing to do. They should not want to settle for anything less. Over the last few years, our firm has worked hard to further embed this 'top quality' mentality throughout our organization, among all our professionals.

Achieving and maintaining the right mindset, and acquiring the right skills, is a long term, never ending project. After all, we do not live in a static world. The world of business and multinational companies changes. The capital markets change. Reporting and audit standards change. The regulatory environment changes for both companies and audit firms. Last but not least, the social and political culture changes. Because auditing is a people business in a constantly and rapidly changing world, at EY we invest heavily in our people.

### The benefits of our unique governance

Apart from discussing culture and quality, the Working Group also discussed the governance of partnerships, the common structure of audit firms, and the right of partners to appoint and dismiss their leadership. This discussion reminded me how unique we are in this respect. Over the last decade, EY has become a truly international organization where important decisions such as these are no longer taken by votes during meetings of national partners, but by our national and international governing bodies.

We firmly believe this internationalization gives us an important competitive edge, as our structure increases our agility in our relationships with large multinational clients and benefits the quality of our audits. Sharing knowledge with colleagues is part of EY's DNA. In the multidisciplinary environment of our organization, auditors can obtain immediate assistance from EY's own tax experts, actuaries, valuation specialists and other professionals if the audit requires their specific knowledge. This free flow of knowledge, crucial for top quality audits, has reached a whole new dimension within our international organization. At EY, we are triggered by the challenges of complex situations and problems; the international exchange of information and experience helps us to meet these challenges.

Within EY, fundamental decisions regarding investments are made internationally and leveraged locally. It is up to the local leadership to determine whether and to what extent additional investments are necessary to meet local requirements and to act accordingly. As mentioned, the decisions about investments are not made by voting partners at the national level. This makes sense, as these investments often run in the hundreds of millions of euros per item. These amounts of capital cannot be provided by a member firm at the national level. Since this has to be done internationally, it is only logical to have a strong international structure to take and implement the relevant investment decisions. EY has got such a structure.

As to our governance in the Netherlands, our Public Interest Committee (*Commissie Publiek Belang*, CPB) has been fully operational now for over a year. The CPB has clearly had a positive impact on the quality of our work and on restoring public trust in our firm. As it only consists of independent members and exclusively focuses on the public interest, the CPB acts as an independent supervisor and holds our firm's leadership to account with a fresh, outside view. At the same time, it provides valuable advice from the same independent, public interest perspective. Discussions are 'frank', but that is exactly how they ought to be and the relationship between management and the CPB is constructive and transparent. It is my strong opinion that the very active role of our fully independent CPB benefits audit quality and the public interest.

Our task: work hard to further improve the quality of our audits

As I have mentioned, within our profession and within our firm, we have taken a lot of initiatives over the last years to improve the quality of our audits, to put the public interest first and to restore trust. However, more needs to be done. A good example of the need to improve: in its latest regular inspection, the Netherlands Authority for Financial Markets (*Autoriteit Financiële Markten*, AFM, our regulator) deemed 3 audits of the 10 audits inspected of 'insufficient' quality. 7 out of 10 is simply not good enough for us and we will work hard to achieve a better score next time.

At the same time, we have to prepare for the future. Over the next few years, we will have to adapt our skill levels to new demands from the world of business and from the public. We are used to provide assurance, our 'professional opinion'. However, auditors and audit firms are increasingly asked to also provide confidence, the 'opinion of a professional'. An example: state-of-the-art IT tools allow the auditor to look deeper and deeper into the IT processes of their clients. Whereas we do not provide assurance regarding all aspects of these processes, it is only logical that both our clients and society at large feel more confident with these processes if the auditor has had a thorough look at them.

This digital revolution and the demand for confidence are having a profound impact on the character of our profession. Meeting the double challenge of further strengthening a culture of quality in our firm and adapting the skills of our professionals to the new times is a long term effort. In this new context, I am convinced that, more than ever, audit firms and audit teams will benefit from diversity. I am not referring here exclusively or even mainly to gender and ethnic diversity. Just as important is diversity in professional and educational background of auditors. In a diverse team, our professionals will complement each other, will find it easier to look at a problem from different angles and constructively challenge premises and viewpoints of other team members. This benefits the personal and professional development of our people, it benefits the firm and it benefits audit quality. I think and hope, therefore, that the days that chartered accountants (*registeraccountants*, RA's) are almost exclusively drawn from people who have studied economics, are numbered.

A learning organization that discusses its mistakes

We are a learning organization. At our firm, mistakes will be made; we are human, after all. But we have the duty to learn from our mistakes, to try and understand their root causes and to make a strong effort to minimize their number and impact. This learning attitude starts with the willingness to admit and discuss mistakes openly. A 'culture of fear', in which people are afraid to uncover let alone discuss mistakes, has a disastrous impact on audit quality. A 'culture of unaccountability', in which anything goes and nobody is held accountable for their acts, has an equally negative impact.

A learning attitude is an essential condition for achieving and maintaining high quality results in the work we do. In this Transparency Report, you will find various instances of how, over the last fiscal year, we have tried to learn from experience and become a better audit firm.

I am excited to take on my new role as Assurance Leader. I am confident that we will continue to improve the quality of our work to the benefit of both the users of our auditor's reports and our clients. I am confident, because I know how hard our professionals work, day in, day out. They have got the right DNA: passion for our profession; eagerness to innovate and to improve; enthusiasm to cooperate with colleagues from different backgrounds. I am both proud and honored to represent them.

I would like to finish with a word of gratitude to my predecessor, Giljam Aarnink. Over the last seven years, Giljam has given it all to the firm in his role as Assurance Leader. He kept our ship on course in what were often very challenging times. I am sure a lot of the work done by Giljam and his team will bear fruit over the next year or so. My team and I will do our utmost to ensure that our firm keeps improving and contributes even more to a better working world.

Rotterdam, 30 September 2014

Michèle Hagers  
Assurance Leader  
Chairman Ernst & Young Accountants LLP

# Report of the Policymakers

Audit firms play an essential role in our societies as providers of assurance. It is in the public interest that their audits and auditor's reports are reliable and relevant. At our firm, this public interest of the performance of high quality audits is our absolute priority.

High quality audits are a necessary condition for a recovery of public trust in the work of audit firms and individual auditors. However, trust also depends on communication. That is why we listen to our stakeholders and tell them about the progress and challenges in our efforts to further improve the quality of our work. In this communication effort, our annual Transparency Report is an essential document.

We firmly believe that further improvement of our audits depends mainly on continued positive change of the culture in our company. The road to better quality passes through the minds and hearts of our people. We are proud of the hard-working, loyal, enthusiastic professionals in our firm. We have covered a long distance in our effort to improve. But, together, we have got to go the extra mile.

Moreover, we should realize that in a fast changing world such as ours, quality and trust are, in a sense, moving targets. From audit tools and reporting standards to expectations of our stakeholders and the laws governing our profession, nothing stays the same. The road to top quality, to better serve the public interest, to gain trust, is an infinite road. We will never stop walking. Sometimes we will have to run, sometimes strolling will do, but we will always be on the move.

Putting quality first and embracing a 'learning culture'

Because of these constant changes around us, improving quality and maintaining trust also requires audit firms and individual auditors to be willing to learn, and to learn continuously. We will make mistakes, but our stakeholders can rightly expect us to discuss these mistakes, to try and find their root causes, to learn from them and to take action. This 'learning culture' will help us to reduce the number and gravity of our errors and to improve the quality of our audits.

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The road to top quality is an infinite road.  
Sometimes we will have to run, sometimes  
strolling will do, but we will always be on the  
move.

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In this journey, we are strengthened by the recognition we receive for our efforts. In the context of the mandatory rotation of audit firms, clients that we have audited for many years had to leave us, but we have also welcomed new clients. New clients include Boskalis, Heijmans, KPN, NS, Ordina, Philips, Post NL, TomTom and VION. Particularly encouraging is the message we receive from new clients that we were chosen because of the quality and team spirit present in our audit teams.

We are grateful for this trust our old and new clients place in us, and it only reinforces our determination to continue on the road of further quality improvement. Changing the culture of an organization is not a box we can tick off to declare it 'done'. It is a persistent, continuous effort that should pervade all our actions. Of course, some initiatives are directly aimed at improving the culture within our firm. For example, after the first regular inspection the AFM carried out in 2010, we executed a far reaching, multi-faceted 'Culture Change' program. More recently, we have increased the focus on 'public interest' and 'professional skepticism' in our training and education programs. And, going forward, we will diversify the pool of people from which we recruit, as more diverse audit teams will ignite an improvement in professional culture, positive team spirit, a faster learning curve of the members of the team and, as a result, better audit quality.

But the Tone at the Top of 'serving the public interest through top quality audits' is not only expressed in these initiatives more or less directly related to the culture of the organization. Just as important is the expression of the right Tone at the Top through the way we remunerate, reward and sanction our professionals. Through improvements to our systems of quality control. Through changes in our governance such as the formation of a Public Interest Committee with exclusively independent members. Through financially burdensome but absolutely necessary investments in new audit tools and procedures. Through the many quality-focused initiatives of our Compliance Office and Professional Practice Group. We hope, therefore, that all our actions and initiatives described in this Transparency Report will not only be seen in isolation but also through this prism of our determination to further improve the professional culture within our firm.

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Changing the culture of an organization is not a box we can tick off to declare it 'done'. It is a persistent, continuous effort that should pervade all our actions.

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After a brief overview of the main external developments affecting our profession and our firm over the last year, this Report of the Policymakers provides a summary of the developments within our firm. We will focus on our recent and upcoming efforts to further improve quality as well as on the results of internal and external audit quality reviews. These and other developments in our firm, as well as various other performance indicators, are described in more detail in volume 2 of this Transparency Report.

#### Responding adequately to legal changes

In our external environment, one new element affecting our profession was the Dutch Regulation regarding independence of auditors involved in assurance assignments (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, ViO). The ViO was issued by our professional organization NBA and came into force on 1 January 2014. This regulation aims to increase auditors' independence by, among other measures, sharpening the requirements regarding rotation of individual members of an audit team, restricting services at audit clients, restricting sponsorships and donations audit firms can make, and limiting the size of gifts that auditors can accept. We have taken the necessary measures - including the integration of the new requirements in our annual independence learning programs and various communications to EY Independence desks around the world - to ensure that both the firm and other members of the international EY network abide by these far-reaching new rules. Recently, our Professional Practice Group (PPG) has set up the ViO consultation panel to assist our firm in the compliance with, and the embedding of, the new ViO rules.

During the last fiscal year, the EU approved some measures affecting our profession. The most important new European rules cover the same subjects as recent Dutch legislation, namely mandatory rotation of audit firms and the segregation between assurance and advisory services at the level of individual clients. We are pleased by the fact that the Dutch government has announced its intention to adapt important aspects of the national legislation to the new European rules and we hope the Dutch parliament supports this proposition. Especially in an open economy such as ours, it is important to strive for a level international playing field, also where regulation of our profession is concerned. That is why we are in favor of Europe-wide harmonization of audit-related legislation and regulation, limiting country specific add-ons as much as possible. Ultimately, European harmonization in this area will be beneficial for the quality of audits at multinational companies.

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Especially in an open economy such as ours, it is important to strive for an international level playing field, also where regulation of our profession is concerned.

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Within the firm, the dynamics brought about by the introduction of mandatory audit firm rotation in the Netherlands had a very important impact on our activities. Serving the public interest also means reducing quality risks. In this case, we took specific actions to reduce the risks related to the short transition period for the introduction of mandatory rotation. The large number of audit tenders, wind-downs and transitions put a significant strain on our firm. This issue was very much on the agenda of our CPB too, and we mitigated the risk by taking various specific measures, including support to the teams involved by members of our PPG.

#### Shaping the future of our profession

On 25 September 2014, the NBA published the report of its Working Group on the Future of the Audit Profession (*Werkgroep Toekomst Accountantsberoep*). We are confident that the steps described in this report will contribute to restoring public trust in our profession. We are especially encouraged by the fact that it defines the professional culture within audit firms and among auditors as the most important challenge in the endeavor to improve the quality of audits. We fully agree with this emphasis on culture.

We also support the twin goals of more informative auditor's reports and global consistency in the structure of auditor's reports. Recently, we have participated actively in various pilot projects where the proposals by the International Auditing and Assurance Standards Board (IAASB) for more informative auditor's reports were applied. We strongly support these proposals, while stressing at the same time the need for international consistency of auditor's reports, as international comparability of these reports is valued by their users. The NBA, our professional organization, has recently decided that audit standards regarding a new format for auditor's reports with more information are to be applied as from the 2014 financial statements of all *Organisaties van Openbaar Belang* (Public Interest Entities as defined by Dutch Law).

#### Learning from external and internal quality reviews

Another important item in fiscal year 2013/2014 was the regular AFM inspection and its aftermath. During calendar years 2013 and 2014, the AFM inspected ten 2012 audit files of our firm. The AFM qualified three out of these ten audits as 'insufficient' due to important deficiencies in the work performed, namely failing to obtain appropriate and sufficient audit evidence in respect of at least one material item. We concur with this conclusion of the AFM. Although the result is better than in the previous regular inspection of the AFM, we are disappointed by this outcome. This result is not acceptable to us. The results give a strong indication that we have to continue to work hard to improve the quality of our audits.

After we were informed by the AFM in 2013 and early 2014 of its preliminary conclusions, we undertook remedial actions to address the deficiencies noted by the AFM. The information obtained during these remedial actions did not modify the auditor's conclusion for these three engagements.

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We are not satisfied with the outcome of the AFM/PCAOB inspection at our firm. The results give a strong indication that we have to continue to work hard to improve the quality of our audits.

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The first part of the latest AFM inspection was a joint inspection with the PCAOB, the US oversight board of the audit profession. The AFM and PCAOB jointly reviewed three files, each of them summarizing results from their regulatory perspective. For the AFM, these were the first three of the ten files it inspected in total. These three audits had been performed under PCAOB standards, as the companies concerned were listed in the US or subsidiaries of a US listed company. AFM performed additional inspection procedures to cover Dutch regulations areas. The PCAOB and the AFM noticed no significant deficiencies in the compliance with audit standards in two of these files and significant deficiencies in a third one. This audit, therefore, was one of the three audits rated 'insufficient' by the AFM out of the total of its ten audits inspected. To improve the quality of our audits performed under PCAOB standards, we have taken several steps, including extra training for our auditors involved in these audits, increased interaction with US colleagues and, if and when necessary, the addition of US colleagues to our teams.

The AFM's findings have spurred us on to double our efforts to improve quality. We shared the AFM's preliminary conclusions with our professionals during training courses and integrated the findings in our yearly Quality Improvement Plan (QUIP). Our Engagement Quality Reviews and annual Audit Quality Reviews will benefit from the lessons learned from the way AFM and PCAOB execute inspections. We analyzed the root causes of the lack of professional skepticism as one of the main factors and concluded that the partners involved had spent too little time supervising quality of these audits due to the size and character of their total portfolio. Therefore, we decided to intensify our regular portfolio analysis to gauge if the same problem could affect other professionals. As a result, we have made changes to the portfolios of other partners too, and more changes are expected. At the same time, in communications with all partners and executive directors we are re-emphasizing the importance of sufficient dedication to the audit and the need to collect appropriate and sufficient extra audit evidence in cases where deficiencies are detected in the client's own processes and systems.

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In communications with all partners and other professionals, we are re-emphasizing the importance of sufficient dedication to the audit.

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One of the three files deemed insufficient by the AFM concerned the audit of a municipality. Deficiencies were found in the auditing of the valuation of real estate development positions as well as the auditing of tendering and purchasing processes. As a result of our own subsequent inspections of audits of other municipalities, we have decided to add resources to this industry group and to set up a new panel dealing with the audit of the land development positions by municipal governments (*Grondexploitatiepanel*). This panel was established late February 2014 and assisted 48 engagement teams in complex audit matters in this area during the remainder of fiscal year 2013/2014. In this industry group, we have also taken initiatives to better distribute engagements among available professionals.

EY's global, annual Audit Quality Review (AQR) program is our most important tool to monitor audit quality on an internationally consistent basis. The detailed results of the 2013/2014 Dutch AQR show a decrease in the total number of findings compared to the AQR in the previous year - in both fiscal years, 70 engagements were reviewed. Ratings resulting of the AQRs were broadly similar to those of 2012/2013. This year, one file received a rating 3 ('material findings') because of a referencing error in the auditor's opinion. During the audit, the auditor had rightly worked with the specific financial reporting rules applicable for this client. In his auditor's opinion, however, the auditor erroneously referred to general financial reporting rules in stead of applicable reporting rules for municipalities. Incorrect wording in the opinion always leads to a material finding.

Other quality indicators such as specific inspections performed by the Compliance Office (CO) as well as the number and character of infringements of internal and external rules by our professionals, confirm steps are still necessary to improve quality.

#### Improving quality in five ways

Our quality efforts will focus on maintaining and further developing the right:

1. culture and conduct, focusing on the public interest;
2. governance structure, with supervision mainly by independent external persons;
3. remuneration structure, through which quality is rewarded and a lack of quality sanctioned;
4. dialogue with stakeholders in society, to increase mutual understanding;
5. quality initiatives and controls, focusing on compliance with the requirements laid down in laws, rules and regulations.

It is no coincidence that the first bullet point is about the right culture and conduct. Because of this paramount importance, we have already described our efforts in this area earlier in this Report.

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Our international governance structure provides extra checks and balances and allows us to take the long view.

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As for our governance structure, in our specific case, checks and balances have two extra dimensions. First, our international governance structure sets us apart and provides extra checks. Voting rights in our firm are held by Ernst & Young Europe LLP, not by national partners. This provides an extra check against inappropriate influence from national partners on, for example, our investments in quality, and allows us take the long view. Second, our governance clearly benefits from the existence of an active CPB, consisting only of independent members and focusing exclusively on the public interest. During its first full year of operation, we had many fruitful meetings with the CPB. They hold us to account and provide us with useful suggestions. This certainly has a positive impact on the quality of our work.

Our remuneration and sanction policies are clearly geared towards fostering quality. Over the last few years, we have fine-tuned the way we measure quality performance. In our new quality monitoring framework we judge professionals on more quality aspects to establish their yearly quality-rating than previously. Factors taken into account include, among others, involvement in quality initiatives; participation in quality-related roles; role as facilitator; participation in training on the job; meeting education and training requirements; compliance with requirements regarding consultations, accounting review and EQR process; responses to the AQR process and AQR ratings; and results from regulatory inspections. Both financial and non-financial rewards are available for our professionals that exceed expectations and deliver top quality. On the other hand, partners with subpar quality performance face a quite significant negative impact on their income. During fiscal

year 2013/2014, we took this step vis-à-vis various partners. Subpar work will also lead to other sanctions, ranging from additional training, additional supervision, reassignment and a disciplinary meeting (*normoverdragend gesprek*) to a separation from the firm. Over the last four years, some partners and executive directors had to leave for this reason. The conviction that a positive commercial performance can never make up for a lack of quality is very broadly shared in the firm.

The quality of our work also benefits from our dialogue with non-executive directors, shareholders, politicians and other stakeholders. In order to serve the public interest, it is important to know what 'the public', and especially our most important stakeholders, think, what their expectations of audits and auditors are. Over the last fiscal year, we had frequent meetings with them, especially with companies' non-executives. These meetings were a source of inspiration for a White Paper on auditors and risk management published in December 2013 called "*Wie had dat zien aankomen?*". Our auditors are also playing a more active role at shareholders' meetings, providing information about the way they have executed the audit.

#### Intensifying our efforts to improve quality and quality controls

Last but certainly not least, we have taken and are taking many specific initiatives to further improve the quality of our work. As part of these plans, EY will spend US\$400m on improving audit methodologies and tools to continue to enhance audit quality. At the same time, a major investment in technology and services, of US\$1.2b, will deliver transformational technologies to help EY member firms better connect with their clients. We are currently preparing the introduction of these new tools. In the summer of 2013, we started to analyze the portfolios of our partners and executive directors more in-depth. This analysis is being intensified and widened. We have taken steps to improve our AQRs and Engagement Quality Reviews (EQRs, *Onafhankelijke Kwaliteitsbeoordeling*, OKB). We are currently reviewing four 2014 AQR files with the criteria used by the AFM during its latest inspection, to gauge whether additional measures regarding our AQR processes are called for.

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The conviction that a positive commercial performance can never make up for a lack of quality is very broadly shared in the firm.

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In our education and training programs, we have substantially increased the emphasis on public interest and professional skepticism. We have communicated the lessons learned from internal and external quality reviews in various training programs. In accordance with a suggestion by our CPB, we are also developing a more case-based, 'real life', coaching approach to training programs, as learning on the job is a very effective way to transmit the experience and know-how of older professionals to younger ones. Over the next year, we will also widen our training programs and we will modify our recruitment policies in order to attract different people and increase diversity within the firm.

Our PPG and CO play very important roles in our effort to increase quality. In fiscal year 2013/2014, the PPG continued the development of sector quality plans and has added the *Grondexploitatiepanel* and the VIO consultation panel to existing panels (going concern, fraud, error evaluation) set up to support audit teams in complex matters. The PPG also urged audit teams to make more use of experts such as tax experts, valuers and IT specialists to help make the right decisions in complex audit matters. The PPG has also further strengthened its network of the quality partners our offices.

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Over the next year, we will recruit different people and increase diversity within the firm.

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The CO was strengthened with two FTEs. It stepped up its internal reviews of engagements, processes and systems. The CO also intensified its internal communications with the PPG and the General Counsel, in order to jointly monitor the development of risks more closely. Reporting of the CO to the Management Team was further structured through a regular 'management letter' by the CO that lists compliance, risk and quality related items. The CO will also report more frequently to the AFM about the CO's ongoing investigations.

## Changing our team

As the firm's Policymakers, we are delighted to be part of our firm's joint effort to further improve quality, albeit in a different composition. On 30 June 2014, both Martine Blockx and Giljam Aarnink stepped down from the Assurance Leadership team. As of 1 July 2014, Martine has taken on responsibility for the Financial Accounting Advisory Services and Market Changes portfolios in the Belgium practice, whereas Giljam will focus on his audit engagements, including newly won audits. We would like to thank them for their significant contributions over the past years. Giljam's role as Assurance Leader was taken over by Michèle Hagers.

On 1 July 2014, we welcomed two new members to the Assurance Leadership Team. Joep Heijster will focus on talent (including the Human Resources portfolio), Yves tiberghien on the Compilation Practice.

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We owe it to our stakeholders to strive continuously to 'get it first time right' and thus help build a better working world.

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In this Transparency report, we describe many actions intended to improve quality. The many steps we have taken and are taking are geared towards all of our auditors always 'getting it first time right'. We will never fully achieve this target, as we are not perfect and the world is not perfect. But we owe it to our stakeholders and to the general public to strive continuously to get as close as possible to this goal and thus help build a better working world. That is what our reputation is built on. Our quest for perfect quality is our 'raison d'être' as a firm and glues our professionals together, united in the common effort. Because we see our professionals at work every day, we know their dedication and we want to thank them for all the hard work over the last year. Because of their expertise, enthusiasm and work ethos, we are very confident that, united in a common effort, our firm will prove up to the challenge of meeting the expectations of our stakeholders.

Rotterdam, 30 September 2014

Michèle Hagers (Chairman)

Joep Heijster

Jaap Hetebrij

Rob Lelieveld

Patrick Rottiers

Yves tiberghien

Jules Verhagen

# Report of the Dutch Public Interest Committee



A year ago, in our first Report, we discussed how we see our role as Ernst & Young Accountants LLP's Public Interest Committee (*Commissie Publiek Belang*, CPB) and we set out our plans. In this Report, we inform the public of our activities during the firm's fiscal year 2013/2014, our first full year on the job.

Last year was very eventful and turbulent for the Dutch auditing world. Various events related to individual audit firms or audits made headlines in the media. At the same time, the discussion about the future of the profession continued unabated and obtained a new dimension. The governance of audit firms themselves became a new focal point of the debate during the first half of 2014.

In this context of intense debate and public scrutiny, our remit as CPB is more important than ever: ensuring that the public interest comes first in the firm's decision making and in its processes and procedures. The Code for Audit Firms (*Code Accountantsorganisaties*) rightly defines the public interest as the reliability of auditor's statements. But in addition, stakeholders' trust in audits, auditors and audit firms is also a matter of public interest. This trust is raised by better quality audits and by mutual understanding. Therefore, our role vis-à-vis the firm and its management is a double one. We monitor decision making, processes and procedures within the firm to ensure that quality of audits is always the prime consideration. Furthermore, we transmit to the firm society's demands, impressions and criticism regarding audits and audit firms, while at the same time discussing with the firm's stakeholders both the deficiencies and improvements we observe within the firm.

This double role of monitoring and dialogue clearly benefits from the fact that the firm's CPB only exists of independent members. Our independence, in combination with our exclusive focus on the public interest, ensures that we are not encumbered by any conflict of interest or instructions by third parties that could jeopardize our independent judgment. This enhances our standing with both auditors and their various stakeholders in society at large.

Before describing how we monitored the firm over the last year, we would like to dedicate a few words of gratitude to Giljam Aarnink, the former Assurance Leader of the firm who stepped down on 1 July 2014. We particularly appreciated Giljam's drive and vision when the firm set up the CPB. We also appreciated his open and constructive attitude in his meetings with us. This ensured that debates could sometimes be hard and difficult as far as content was concerned, but that our relationship with Giljam was always respectful and pleasant. We wish Giljam all the best in his new professional role at the firm and look forward working with Michèle, his successor.

## Monitoring that the public interest comes first

In our monitoring role, we hold management of the firm accountable from the public interest perspective. Sometimes we urge, sometimes we suggest, sometimes we advise, encouraging management to improve quality even faster than the firm's management itself is already striving for. Our relations with management over the last year have been transparent and constructive. This means that in our meetings sensitive issues are not avoided and that differences of opinion are not covered up but clearly expressed and discussed. In many different areas, management took on board specific indications of ours and acted accordingly: human resources, systems of quality control, relations with regulators and education and training programs.

In order to monitor the firm properly, we maintain a dense schedule of meetings with top managers and other people within the firm. We had regular meetings with the Assurance Leader (once a month), the Assurance Leadership Team (once every two months), the Professional Practice Director (twice a year), the Compliance Officer (twice a year), the General Counsel (twice a year), the Independence Leader (twice a year), the Country Managing Partner (twice a year), the BeNe Partner Forum (twice a year), the Chairman of Ernst & Young Belastingadviseurs LLP (once a year). In addition, we also had conversations with individual partners to gain first-hand impressions of how they experience the governance, management and tone-at-the-top of the organization as well as of their opinions on the future of auditing and of society's perception of auditors in general and the firm in particular. At the international level, we discussed the Dutch audit environment and the firm with representatives of the EMEIA and Global EY network.

#### Focusing on quality and quality controls

Over the last twelve months, we have paid a lot of attention to quality controls within the firm. Audit quality and quality controls are of the utmost importance at any time, of course, but this year various specific circumstances made us focus even more on this topic. First, the results of the latest external inspections by the AFM and the PCAOB became available and were discussed between these two oversight boards and the firm. Second, regardless of the impact of mandatory audit firm rotation on audit quality, we are well aware of the temporary quality risks resulting from the short transition period provided for this rotation in Dutch legislation, as well as from the extra rotation requirements of individual auditors demanded by the Dutch Regulation regarding Independence (*Verordening inzake Onafhankelijkheid, ViO*). And third, various incidents at Dutch OOB's and audit firms triggered extra interest in audit quality.

#### Analyzing the results of AFM and PCAOB inspections

External inspections of audit quality are an important tool to gauge the firm's progress. As for the recent AFM and PCAOB inspections, we are encouraged by the more positive relationship between the firm and its regulators compared to the previous regular inspection by the AFM and its aftermath. We also noted that the discussions between the AFM and the firm regarding the work of the firm's Compliance Office were more constructive.

The AFM found deficiencies in three out of ten audit files inspected during its latest regular inspection, including one out of three jointly inspected with the PCAOB. We discussed the results with management. The firm's management accepted the conclusions by the AFM and the PCAOB and recognized the need to further improve audit quality. In extensive conversations with us on this topic, the firm's management showed clear intent to learn from past mistakes; we closely monitor its efforts in further improving quality and we will continue to do so. We will spur management on to keep the encouraging momentum of quality improvement and change of culture at the firm going.

Among other items, we discussed with the Assurance Leadership Team and the Compliance Officer how to react to the deficiencies discovered by the AFM. One of the topics was the extent of the follow-up inspections (*olievlekkonderzoek*), i.e. the extent to which other audits by the same auditor or in the same sector should be reviewed by the CO to determine if there is a structural problem. We also discussed the firm's program of internal Audit Quality Reviews (AQRs), and have noted and agree with an approach to further compare internal and external inspection outcomes, and to enhance the internal inspection process where needed.

#### Managing transition and workload

We also monitored how the firm deals with quality risks linked to a possible increase of partners' and other professionals' workloads, especially in the context of mandatory audit firm rotation. We discussed this important issue with various executives within the firm, including the Assurance Leader, the Assurance Leadership Team and the Compliance Officer. We noted that management is well aware of these risks and has taken specific measures to mitigate them. A plan is put in place to support executives where an excessive workload situation could occur.

#### Discussing the new independence rules

In recent years, various initiatives were taken, both at the Dutch and at the European level, to increase the independence of auditors. In our opinion, it is now important to monitor the effect of these measures over the next few years. We discussed with management the implications of the ViO on specific aspects of independence, e.g. the more restrictive rules regarding sponsoring, donations and the acceptance of gifts. As mentioned above, we also discussed the workload and quality implications of the ViO clauses on extended rotation requirements for individual auditors in an audit team.

### Taking a close look at performance and remuneration

The Dutch Code for Audit Firms emphatically mentions remuneration policies as one of the areas the CPBs should monitor. We have done so over the last year and we noted that the remuneration system at the firm provides partners and other professionals with the right incentives to put quality first, as requested by the Code. In the context of incentives and sanctions, we discussed with management the difficult dilemma between 'sanctioning' and 'learning'. On the one hand, it is appropriate to sanction partners and professionals with deficiencies in the quality of their work. On the other hand, the firm itself and individual auditors should learn from mistakes. This learning process is fostered by professionals pro-actively coming forward when they have made or detected a mistake. This transparency about mistakes may be hampered by a fear of sanctions. We discussed under what circumstances it should be possible for a professional to uncover a mistake made, without the risk of being sanctioned.

### Checking on education and training

We discussed the firm's education and training programs and in our opinion they are up to the standard that can be expected from a firm such as EY. We support the firm's policy to include more case-based training of junior professionals by senior ones, as this is one of the best ways to provide younger generations with the experience of older ones. We emphasized that, in case-based training too, learning from mistakes and putting the public interest first should be the primary focus and goal.

### Reacting to incidents outside the firm

As for the firm's reaction to certain incidents reported in the media, we discussed with management the alleged deficiencies of audits in certain sectors as well as alleged improprieties at other firms. We enquired if management had checked if these or similar deficiencies or improprieties could be present at the firm. We also discussed if a particular audit performed by the firm had been performed appropriately, after improprieties at the client became public knowledge. More specifically, we discussed the company's policy regarding real estate and its fiscal context, as well as rules and practices regarding (collective) investments by partners of the firm. We noted that, for many years, it has been the company's policy not to invest in offices or other real estate. We further noted that management had looked into the firm's partners' investment activities against the background of the discussions regarding collective investments and that this review did not uncover any practices that could be perceived as improper.

### Participating in the stakeholder dialogue

A mutual lack of understanding and empathy between auditors and audit firms, on the one hand, and their stakeholders, on the other, still persists. The same facts are often interpreted quite differently by each side. This divergence of interpretation was present in the fascinating debates on the future of the audit profession over the last twelve months. Important discussions on the governance of audit firms, the scope of auditor's reports and new rules on auditor's independence were interwoven with comments on specific instances where the quality of auditors' work or even their professional ethics were questioned. The CPB and especially its Chairman participated actively and with keen interest in these discussions between auditors and their various stakeholders - regulators, government, politicians, executive directors, non-executive directors and institutional investors. This active participation involved listening carefully, expressing our points of view and putting forward proposals. Thus, we helped the firm and its professionals to understand the impressions, views and legitimate demands present in society at large. At the same time, we explained to the firm's stakeholders the efforts made by the firm to improve the quality of their work as well as the challenges that remain.

Members of the CPB and especially its Chairman have had numerous meetings with various stakeholders, mostly together with the firm's Assurance Leader or EY's Dutch Country Managing Partner. Included in these meetings and visits were Eumedion (institutional investors in the Netherlands), Members of Parliament of various political parties, the AFM, the NBA and the CPBs of other OOB audit firms. In addition, members of the CPB participated in various top-level conferences on the future of auditing in the Netherlands. Among other activities, the Chairman took the initiative for regular meetings between the CPBs of the 'Big 8' Dutch audit firms.

The firm itself engages in a structured dialogue with its stakeholders on the content of their work and the future of the audit profession, as mandated by the Code for Audit Firms. We noted that the firm pays a lot of attention to this dialogue and puts in sufficient efforts. Particularly noteworthy in this respect are the cycles of Round Tables the firm organized to continue its dialogue with non-executive directors and a Round Table with investors and analysts. Frequently, members of the CPB have been present at these and other meetings of the firm with its stakeholders.

## In conclusion

The debate on the future of auditing will continue. The recently released AFM report on its latest regular inspection of 'Big Four' firms as well as the proposals by the Working Group Future of the Audit Profession (*Werkgroep Toekomst Accountantsberoep*) will continue to fuel the discussions. Some proposals of this Working Group regarding the governance of audit firms may well affect the status of CPBs of OOB audit firms. In this respect, we would like to note that we deem both our independence and our exclusive focus on the public interest very valuable. Currently, we are satisfied that we have the competences and tools to fulfil our task of safeguarding the priority of the public interest at the firm. We believe that the firm's management is aware of the need to further improve audit quality to the level required and that it is taking important steps to achieve this goal. We will continue to monitor these efforts closely.

Rotterdam, 30 September 2014

Steven van Eijck (Chairman)

Mijntje Lückerath-Rovers

Frans van der Wel

# Volume 2



## About us

### Legal structure, ownership and governance

As described in the Network arrangements section below, EY knows four geographic areas. EY's activities in the Netherlands are part of the EMEIA area (Europe, Middle East, India, Africa). The EMEIA area consists of 99 countries divided into 11 geographic Regions and of the EMEIA Financial Services Region, which facilitates all services provided to the financial sector in the EMEIA area. Both EMEIA and each Region are headed by a Leadership Team.

Together with Belgium, the Netherlands forms the Belgium/Netherlands Region. This region does not include the Financial sectors in both countries, as these industry sectors are part of the EMEIA Financial Services Region. Dutch partners are either allocated to the Belgium/Netherlands Region or to the EMEIA Financial Services Region.

As an individual country, the Netherlands has a Country Managing Partner, currently Marcel van Loo.

The Belgium/Netherlands Regional Partner Forum is an advisory body that convenes on a regular basis to discuss matters of interest, provide input to the Europe Advisory Council and advise the Regional Managing Partner and the Regional Leadership Team. The forum has 10 members, 7 from the Netherlands and 3 from Belgium. Members of the Leadership Teams and of management cannot be elected to the forum. The members of the forum are elected by EY partners in Belgium and the Netherlands in election cycles of three years; membership of the forum cannot exceed 6 years.

#### Ownership, control, organization

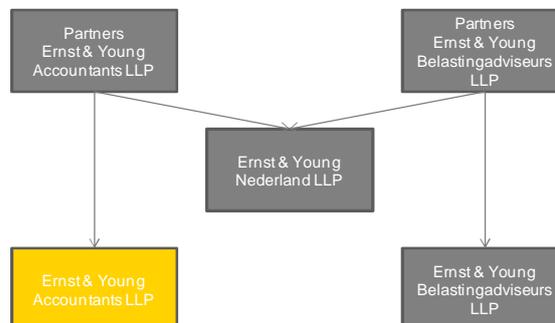
In the Netherlands, the EY audit firm operates through a UK Limited Liability Partnership named Ernst & Young Accountants LLP. In this report, we refer to Ernst & Young Accountants LLP by its full name, or as 'the firm', 'our firm', 'we' or 'us'. We are a member firm of Ernst & Young Global Limited.

Our firm engages in various professional activities through three service lines: Assurance, Advisory and TAS (Transaction Advisory Services).

#### Ownership

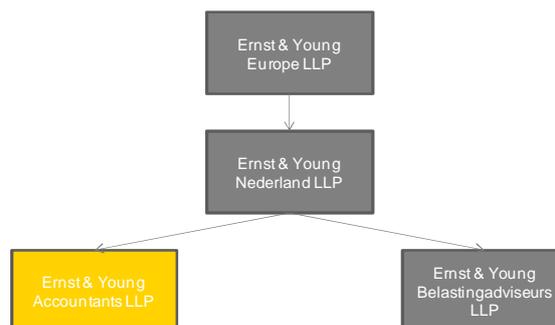
Our firm is owned by the private practice companies of our partners in the Netherlands ('members'). Apart from holding a stake in Ernst & Young Accountants LLP, our members are also co-owners of Ernst & Young Nederland LLP, together with the members of Ernst & Young Belastingadviseurs LLP. The members of our firm and of Ernst & Young Belastingadviseurs LLP are also co-owners of Ernst & Young Europe LLP, a UK limited liability partnership owned by members of EYG member firms in Europe.

Our simplified ownership structure is illustrated below. No changes were made in 2013/2014.



#### Control

Ernst & Young Europe LLP has indirect control over our firm through Ernst & Young Nederland LLP. The simplified control structure is illustrated below. No changes were made in 2013/2014.



## Organization

The network of Ernst & Young Accountants LLP operates from 15 offices in the Netherlands and consists of:

- Ernst & Young Nederland LLP
- Ernst & Young Belastingadviseurs LLP
- Ernst & Young Actuarissen BV
- Ernst & Young CertifyPoint BV - independent and impartial certification
- Ernst & Young VAT Rep BV - VAT representation
- Ernst & Young Real Estate Advisory Services BV - real estate investment advice and valuations
- Stichting Ernst & Young Foundation - support for initiatives by not for profit organizations regarding sustainability and environmental issues
- Beco Groep B.V. - advice regarding sustainability and environmental issues

Ernst & Young Belastingadviseurs LLP has a strategic alliance with Holland Van Gijzen Advocaten en Notarissen LLP. Holland Van Gijzen is not part of the network of Ernst & Young Accountants LLP.

Ernst & Young Nederland LLP coordinates and facilitates EY's activities in the Netherlands, but does not provide services to external clients. The economic profits of Ernst & Young Accountants LLP are distributed among partners through Ernst & Young Nederland LLP.

### Governance in the Netherlands

Ernst & Young Nederland LLP is governed by a Board of Directors elected by Ernst & Young Europe LLP. Current Board members are Marcel van Loo (Chairman, Country Managing Partner in The Netherlands), Michèle Hagers (Chairman of Ernst & Young Accountants LLP) and Jeroen Davidson (Chairman of Ernst & Young Belastingadviseurs LLP).

The Board provides coordinating leadership in order to optimize the shared course of business and practices of Ernst & Young Accountants LLP and Ernst & Young Belastingadviseurs LLP, and to promote their joint strategy. The Board regularly discusses various topics with the Regional Partner Forum, whose members are partners' representatives.

On 1 July 2014, Michèle Hagers took over from Giljam Aarnink as Chairman of the Board of

Directors of Ernst & Young Accountants LLP, as Giljam stepped down after seven years as Chairman.

### Governance of the Audit Firm

The Board of Directors of Ernst & Young Accountants LLP is responsible for the commercial, financial and reputational standing of the firm. Appointment procedures, time in office and other relevant personal details of members of the Board are published on our website.

The Board manages our firm's operational and financial effectiveness, its compliance with local and international professional standards and audit regulations, the implementation of our assurance strategy, methodology and tools, and the sufficiency of our resources.

The members of the Board of Directors of Ernst & Young Accountants LLP are elected by Ernst & Young Nederland LLP. There are currently four Board members: Michèle Hagers (Chairman), Joep Heijster (Human Resources), Jaap Hetebrij (Belgium/Netherlands Professional Practice Director) and Jules Verhagen (Markets Netherlands).

### Policymakers and Co-Policymakers

The following persons were/are responsible for policymaking and co-policymaking (*beleidsbepalers* and *medebeleidsbepalers*) at Ernst & Young Accountants LLP.

#### Policymakers (Assurance Leadership Team):

- The four members of the Board of Ernst & Young Accountants LLP mentioned above
- Rob Lelieveld, the Netherlands Financial Services leader
- Patrick Rottiers, partner of the Belgian audit firm in EY's global network and responsible for Markets Belgium
- Yves tiberghien, Markets leader Accounting Compliance Reporting (ACR) in the Belgium/Netherlands Region - as of 1 July 2014
- Giljam Aarnink - stepped down on 30 June 2014
- Martine Blockx - stepped down on 30 June 2014

#### Co-policymakers:

- Auke de Bos, Netherlands Professional Practice Director
- Rudi Braes, Belgium/Netherlands Regional Managing Partner

- Jeroen Davidson, member of the Board of Directors of Ernst & Young Nederland LLP
- Bernard Heller, Professional Practice Director Europe
- Jean Yves Jégourel, Assurance Leader Europe – as of 1 July 2014
- Marcel van Loo, chairman of the Board of Directors of Ernst & Young Nederland LLP
- Pascal Macioce, Assurance Leader Europe as of 9 August 2013 – resigned on 30 June 2014, to assume the role of EMEIA deputy chairman
- Mark Otty, Managing Partner Europe
- Felice Persico, Assurance Leader Europe – resigned on 9 August 2013, when assuming a role at the EY Global Board
- Isabelle Santenac, Assurance Leader Europe Financial Services

#### EY's Public Interest Committee in the Netherlands

On 15 May 2013, we publicly announced the formation of a Public Interest Committee (*Commissie Publiek Belang*, CPB). Auditors and audit firms should put the public interest first, i.e. the reliability and relevance of auditor's reports, especially auditor's reports on the accounts of Public Interest Entities (*Organisaties van Openbaar Belang*, OOBs). It is the CPB's task to monitor that the public interest takes priority within our firm. The formation of the CPB, required by the Dutch Code for Audit Firms (*Code voor Accountants-organisaties*), is fully in line with our own vision regarding the preeminence of the public interest.

The CPB consists of three members, all of them independent from our firm. This independence is important, as independent monitoring will help us to further increase the quality of our work and thereby ensure the reliability and relevance of our reports. Our Dutch CPB mirrors the presence of Independent Non-Executive representatives (INEs) in EY's global governance structure and particularly EY's Global Advisory Council, as described in the 'Network arrangements' section of this Transparency Report. During fiscal year 2013/2014, contacts between our CPB, EY's Global Advisory Council and EY's Europe Advisory Council have been structured further.

The current members of our CPB are Steven van Eijck (Chairman), Mijntje Lückérath-Rovers and Frans van der Wel. Mr van Eijck and Ms Lückérath-Rovers officially joined the CPB on 1 July 2013. Mr Van der Wel joined the CPB on 1 September 2013, after finishing a professional assignment as an advisor to our firm. In this composition, the CPB benefits of a broad mix of experience in politics and

administration, governance and supervision, academics, and auditing.

The members of the CPB are appointed by the Board of Ernst & Young Accountants LLP, after consultation with EY's Country Managing Partner in the Netherlands and the Dutch members of EY's Belgium/Netherlands Partner Forum.

The Chairman of the CPB is appointed for a period of four years and can be reappointed for no more than two consecutive two-year periods. The members are appointed for two years and can be reappointed for no more than three consecutive two-year periods.

At Board level, we involve the CPB in all processes that relate to the public interest. Members of the CPB have access to all information within the firm and receive administrative support from our firm. In the case of a profound disagreement between the Board of our firm and the CPB, the Board will inform EY's Country Managing Partner in the Netherlands and/or the Belgium/Netherlands Regional Managing Partner. In these circumstances, the CPB is also entitled to seek the opinion of EY's Europe Regulatory Partner or to contact our firm's regulator, the AFM. If, as a result of an unresolved disagreement, one or more members of the CPB should decide to step down, the firm will immediately make this public on its website.

The CPB reports to the Country Managing Partner and informs the Dutch members of the Regional Partner Forum (including Financial Services). These members liaise with the Europe Advisory Council, whose members in turn liaise with the Global Advisory Council. At the international level, the CPB discusses the Dutch audit environment and the firm with representatives of the EMEIA and Global EY network. The CPB also discusses items directly with other INEs, including INE members of the Global Advisory Council.

The Charter governing the work of the CPB provides more detail and is available on our website. The CPB reports on its activities elsewhere in this Transparency Report.



## EY Europe's principal bodies

### Europe Executive

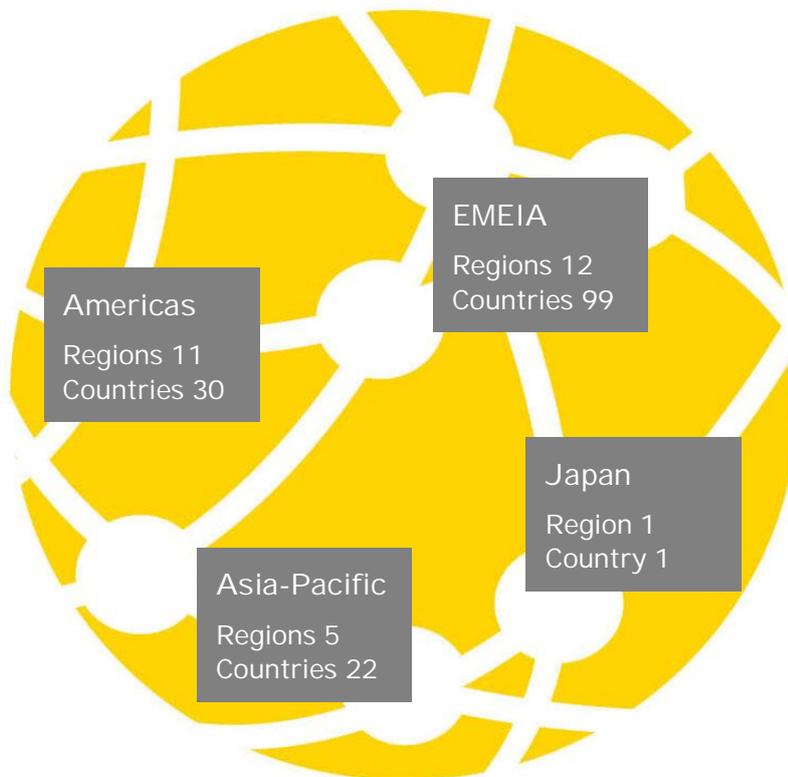
The Europe Executive effectively operates as the board of EY Europe. It has authority and accountability for strategy execution and management of its operations.

It comprises the Europe Managing Partner; the Europe Deputy Managing Partner; the leaders for Accounts, Talent and Risk Management; the service line leaders for Assurance, Advisory, Transaction Advisory Services and Tax; and all European Regional Managing Partners.

### Europe Advisory Council

EY Europe has an elected Europe Advisory Council, which comprises a number of partners of the EYG member firms in Europe. It serves in an advisory role to the Europe Executive on policies, strategies and other matters, and its approval is required for a number of significant matters, e.g. the appointment of the Europe Managing Partner, approval of the financial reports of EY Europe, and material transactions. Marnix van Rij and Cees Visser, partners at EY firms in the Netherlands, are members of the Europe Advisory Council; Coen Boogaart, a partner of our firm, was presiding partner of the Council until 30 June 2014 when he stepped down after two terms, the maximum. Coen was succeeded by Vincent de la Bachelerie, a partner of the French EY member firm.

## Network arrangements



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 190,000 people in member firms in more than 150 countries share a commitment to building a better working world and are united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

EY's central entity, EYG, coordinates the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include promoting the provision of exceptional, high-quality client service by its member firms worldwide. Each member firm is a legally distinct entity. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The structure and principal bodies of the global organization during the year ended 30 June 2014 are described below. They reflect the principle that EY, as a global organization, has one shared strategy.

In July 2013, EY streamlined its operating model by creating the Executive and the Regions. The Executive includes the Global Executive (GE), its committees and teams, and the leadership of the four Areas. This streamlined structure allows EY to

further enhance its global scale and the delivery of consistent exceptional client service worldwide, with the Executive responsible for one global approach to strategy, quality, risk management, business planning, investments and priorities. At the same time, this new operating model allows for greater stakeholder focus in the 29 Regions, permitting member firms to build stronger relationships with clients and others in each country and be more responsive to local needs.

### Global Advisory Council

The Global Advisory Council (GAC) is the main advisory body of EYG. It comprises a number of member firm partners drawn from across the four Areas and includes independent non-executive representatives (INEs). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three-year term, with provisions for one successive re-appointment. The GAC advises EYG on policies, strategies and the public interest aspects of their decision-making. The approval of the GAC is required for a number of significant matters that could affect EY. Coen Boogaart, partner of our firm, was presiding partner of the Global Advisory Council. He stepped down at 30 June 2014 after two terms, the maximum. Penny Stocks, a US partner succeeded him. Johan van den Bos was a member. At 30 June 2014, he rotated off because of retirement. Marnix van Rij succeeded him.

## Independent non-executive representatives

INEs are appointed from outside of EY and bring the global organization, and the GAC, the significant benefit of their varied perspectives and views. The INEs are nominated by a dedicated committee. More information on EY's INEs can be found in the next section.

## Global Executive

The Global Executive (GE) brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and Chief Executive Officer of EYG and includes its Chief Operating Officer; the Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leaders for Talent, Risk Management, and Finance and Corporate Development; the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services; and the Global leader for Public Policy. The GE also includes the Chair of the Global Accounts Committee and the Chair of the Emerging Markets Committee as well as a representative from the emerging markets practices.

The GE and the GAC approve nominations for the Chairman, Chief Executive Officer and the Chief Operating Officer of EYG and ratify appointments of the Global Managing Partners. The GE also ratifies appointments of Global Vice Chairs. The GAC ratifies the appointments of any Global Vice Chair who serves as a member of the GE. Furthermore, the Global Executive approves appointments of Area Managing Partners. Such appointments are subject to ratification by the GAC.

The GE's responsibilities include the promotion of global objectives and the development, approval and, where relevant, implementation of:

- Global strategies and plans
- Common standards, methodologies and policies to be promoted within member firms
- People initiatives, including criteria and processes for admission, evaluation, development, reward and retirement of partners
- Quality improvement and protection programs
- Proposals regarding regulatory matters and public policy
- Policies and guidance relating to member firms' service of international clients, business development, markets and branding
- EY's business plans, development funds and investment priorities
- EYG's annual financial reports and budgets

- GAC recommendations
- Any other proposal that supports the global objectives

It also has the power to mediate and adjudicate disputes between member firms.

## GE committees

Chaired by members of the GE and bringing together representatives from the four Areas, the GE committees are responsible for making recommendations to the GE. There are committees for Global Markets and Investments, Talent, Risk Management, Assurance, Advisory, Tax, and Transaction Advisory Services.

## Global Practice Group

This group brings together the members of the GE, GE Committees and Regional leaders. The Global Practice Group seeks to promote common understanding across member firms of EY's strategic objectives and consistency of execution across the organization.

## EYG member firms

Under the regulations of EYG, member firms commit themselves to pursue EY's objectives, such as the provision of high-quality service, worldwide. To that end, the member firms undertake to implement the global strategies and plans and to maintain the prescribed scope of service capability. They are required to comply with common standards, methodologies and policies, including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources and technology.

Above all, EYG member firms commit themselves to conducting their professional practices in accordance with applicable professional and ethical standards and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by EY's Global Code of Conduct and EY's values.

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the EY organization such as the right and obligation to use the EY name and the sharing of knowledge.

Member firms are subject to reviews that evaluate their adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology, and human resources. As necessary, special focus reviews are performed to address situations or concerns as they arise. Member firms unable to meet the quality commitments and other EYG membership requirements are subject to separation from the EY organization.

## Independent non-executive representatives

EY has invited world-class leaders in related fields to serve as INEs on the GAC. They provide an independent voice to the highest levels of management and offer insight into the interests of EY's key stakeholders. EY follows the UK Audit Firm Governance Code model for INEs by selecting individuals who command respect and collectively enhance shareholder confidence by virtue of their independence, stature, experience and expertise.

### Appointment

The INEs are nominated by the INE Nominating Committee comprising the Chairman/CEO of EYG, the presiding partner of the GAC, and other persons as the Chairman/CEO and the presiding partner in their discretion deem appropriate. The nominations require approval by the GE and ratification by the GAC.

### Support

INEs are entitled to receive information about global affairs. To facilitate their effectiveness, they receive administrative support and any independent professional advice that may be required.

### Term

The term of an INE is three years with provision for one re-appointment at the request of the INE Nominating Committee and the GE.

### Disagreements

Any disagreement between an INE and others on the GAC would be resolved by mediation by the Chairman/CEO of EYG through a defined process of notification and consultation.

### Independence

EYG has considered the auditor independence standards as they apply to INEs in their role as members of the GAC, and EYG is satisfied these standards have been met.

### EY's INEs

#### *Shyamala Gopinath*

Shyamala Gopinath is the former deputy governor of the Reserve Bank of India (RBI), a post she held from September 2004 to June 2011. She joined the RBI in 1972 and worked in different capacities, including as Executive Director from June 2003 until her elevation to deputy governor. She also served for two years on deputation to the International Monetary Fund.

#### *Sir Richard Lambert*

Sir Richard Lambert is the Chancellor of the University of Warwick, a member of the Supervisory Board for the Foreign and Commonwealth Office (UK), a former Director-General of the Confederation of British Industry and a former editor of the *Financial Times*. Sir Richard was knighted for services to business in the 2011 New Year Honours.

#### *Klaus Mangold*

Klaus Mangold serves as a director at many companies, including Alstom S.A., Continental AG, TUI AG, Metro AG and Rothschild GmbH. His former directorships include DaimlerChrysler Services AG, and he has been the Chairman of the East-West Committee of German Industry. He is Commander of the Legion of Honor (France) and Professor of the European Business School.

#### *Mark Olson*

Mark Olson's former positions include Federal Reserve Board Governor; Chairman of the US PCAOB (Public Company Accounting Oversight Board); Staff Director of the US Senate Securities Subcommittee of the Banking, Housing, and Urban Affairs Committee; Chairman of the American Bankers Association; bank president and CEO of Security State Bank. He was a partner at Ernst & Young LLP from 1988 to 1999.



## Commitment to quality

### Infrastructure supporting quality

#### Quality in our service lines

Vision 2020, which sets out EY's purpose, ambition and strategy, calls for EY member firms to provide exceptional client service, worldwide. This is made possible by an unwavering commitment to quality and service that is professionally and globally consistent and means service that is based on objectivity, professional skepticism, and adherence to EY and professional standards.

Our service lines are accountable for delivering quality engagements, including managing quality reviews and real-time quality assurance of engagements, which measures compliance with professional standards and all of our policies.

Vision 2020 has reinforced the ownership of quality within all our service lines, including audit. It has also resulted in increased clarity around the role of Risk Management policies and practices that support and improve quality audit.

The Global Vice Chair – Assurance coordinates member firms' compliance with and implementation of EY's policies and procedures for assurance services.

#### Professional Practice function

The Global Vice Chair – Professional Practice, referred to as the Professional Practice Director (PPD), is overseen by the Global Vice Chair – Assurance and works directly with the Area PPDs to establish global audit quality control policies and procedures. The Area PPDs are overseen by the Global PPD and the Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

The Global PPD and Area PPDs also lead and oversee the Professional Practice group. This is a Global and Area network of technical subject matter specialists in accounting and auditing standards who consult on accounting, auditing and financial reporting matters and perform various practice monitoring and risk management activities.

The Global PPD oversees development of the EY Global Audit Methodology (EY GAM) and related technologies to be consistent with relevant professional standards and regulatory requirements. The Professional Practice group also oversees development of the guidance, training, and monitoring programs and processes used by member firm professionals to execute audits consistently and effectively. The PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, clients and processes and are readily accessible for consultation with audit engagement teams.

Additional resources are often brought in to augment the Professional Practice group, including networks of professionals focused on:

- Internal-control reporting and related aspects of our audit methodology
- Accounting, auditing and risk issues for specific industries and sectors
- Event-specific issues such as the financial crisis; areas of civil and political unrest; and sovereign debt and related accounting, auditing, and financial reporting and disclosure implications
- General engagement issues and how to work effectively with audit committees

#### Risk Management

The Global Vice Chair – Risk Management (GVC-RM) is responsible for enterprise wide risk management including overseeing organization-wide quality initiatives across EY's four service line functions in Assurance, Advisory, Tax and Transaction Advisory Services.

The GVC-RM is overseen by the Global Managing Partner Business Enablement and is a member of the Global Executive. Member firm partners are appointed to lead Risk Management initiatives in the service lines and member firms, supported by other staff and professionals. The GVC-RM is also responsible for establishing globally consistent risk management execution priorities and enterprise wide risk management. These priorities cascade to member firms, and their execution is monitored through a formal Enterprise Risk Management program.

The Dutch Professional Practice Group

#### *Global Alignment to serve Quality best*

In accordance with our international set-up as described above, the Belgium/Netherlands Region has put various structures and procedures in place to ensure we uphold high standards of quality, independence and integrity throughout our organization and the entire audit chain. This includes an overarching Risk Management (RM) department, which deals with issues that go beyond individual Service Lines, such as independence. In addition, each Service Line has its own Belgium/Netherlands RM function, which deals with Service Line-specific quality and risk issues. Our Financial Services Region has the same structure to support financial services professionals on industry specific topics. Within this framework, the Belgium/Netherlands Assurance RM function is performed by the Professional Practice Group (PPG). The PPG, therefore, is responsible for most RM activities for this Service Line.

#### *Focus on Quality and Quality Improvement*

Our Quality Policy and Plan are described in our *Kwaliteitsbeleid* paper. It describes our Plan-Do-Check-Act management cycle in this respect as well as our annual focus areas and plan. The results are covered in this Transparency Report.

The PPG plays a key role in upholding the quality of the professional assurance services - including audits - that auditors at our firm perform. Jaap Hetebrij is the Belgium/Netherlands Assurance RM Leader and the Belgium/Netherlands Professional Practice Director (Region PPD). He is a member of our firm's Board. Jeroen Kamphuis has been designated to take over Jaap's portfolio and membership of the Board on 1 January 2015. Within the Belgium/Netherlands Assurance RM function, the Dutch PPG deals specifically with issues affected by Dutch legislation, regulations and standards as well as demands from our firm's Dutch supervisor. Auke de Bos heads the Dutch PPG and is the Netherlands PPD. In addition, in compliance with Dutch legislation, our Dutch firm has a Compliance Officer and a Compliance Office (CO), which are described below.

The PPG keeps all our professionals informed of relevant international and national developments that affect the way in which audits must be conducted. It organizes regular training sessions for our professionals. Furthermore, the PPG directs our Engagement Quality Reviews (EQR). The PPG must be consulted by an audit team in case of significant professional doubt; the judgment of the PPG in these cases is binding. Last but not least, the PPG can also be consulted by professionals from Service Lines other than Assurance, and it oversees initiatives in the field of risk management.

All in all, the PPG organization consists of about 40 professionals (roughly 25% of them focusing on accounting and the remainder on assurance support), who dedicate all or a substantial part of their time to Assurance RM activities, over 60,000 hours in total during fiscal year 2013/2014. These professionals include nine partners - eight of which are Dutch - and four executive directors. Within the PPG, various teams deal with specific tasks, such as supporting the Assurance service line in its consistent application of the EY Global Audit Methodology, providing technical assistance and consultation regarding the application of auditing and accounting standards, and supporting teams that deal with Initial Public Offerings or other financial market transactions.

#### Responding to Challenging Times

Fiscal year 2013/2014 was again challenging from an audit perspective. Despite initial signs of economic recovery, we were faced with a high number of companies in financial distress, frequent asset impairments and fraud cases. Although the total number of consultations slightly decreased, the average complexity of consultations with the PPG remained high. To address this challenge, the PPG put in place various quality initiatives, including the Close Monitoring Board (CMB).

The CMB was created with the objective of closely monitoring all our most sensitive and risky engagements by ensuring that:

- engagements to be monitored and issues to be addressed are identified in a timely manner;
- appropriate procedures are in place to address the risks identified;
- adequate support is provided to engagement teams, enabling them to address the risks identified and to make the appropriate decisions regarding, for example, impact on the audit reports and on client continuation;
- relevant decisions are consistent across our client portfolio.

Periodically, the Board discusses the complete list of engagements with close monitoring status. Information is shared regarding developments and issues encountered during the audit cycle, with special attention for a list of high profile and high exposure clients who may or may not all have a formal close monitoring status. In addition, engagement or industry developments of importance outside of the scope of the list can be raised. During the busy audit season, these update calls are scheduled once every two weeks. For the remaining part of the year these calls are scheduled once every four weeks.

The members of the CMB include the BeNe PPD, the BeNe IFRS leader and our Compliance Officer. The CMB reports to the Assurance Leadership Team.

## Objectives and realization

For fiscal year 2014 our policymakers and PPG set various objectives to further improve the quality of our quality control system and strengthen the skills of our professionals. In this framework, the PPG coordinated the implementation of the Code for Audit Firms (*Code Accountantsorganisaties*) and initiated various initiatives to reinforce the right Tone at the Top, e.g. by organizing a workshop Public Interest for all executives and discussing this topic during summer courses and executive events.

In recent years, quality has become the most important factor in determining rewards for our partners and directors. The PPG and the CO applied a Quality Measurement Tool to provide systematic input for the assurance leadership to determine the quality rating of our partners and executive directors based on a range of topics. To emphasize the importance of good quality an annual quality award is given to a partner with outstanding quality achievements.

To enhance the communication with our clients and the public, PPG updated the templates for communications with 'Those Charged with Governance' and coordinated the pilot for a new auditor's opinion that contains more information than the current auditor's opinion.

To respond to the dynamic regulatory environment we continued our constructive dialogue with the AFM, which, among other insights, provides us with the AFM's views on our measures to further improve the quality of our work.

In response to the external inspections, the PPG organized technical trainings on specific topics that are relevant to USA-related engagements. Policymakers and the PPD jointly performed a review of the client portfolios of the partners who audit USA-related engagements to ensure adequate experience in this field and set out requirements for a minimum number of USA-related engagements per partner.

During fiscal year 2013/2014, the Dutch PPG also set up a Land Development panel (*Grondexploitatiepanel*, GREX). This Panel advises our audit teams on the audit of (the valuation of) land positions at municipalities. Through this panel, we aim to implement a seamless audit approach and support audit teams in sometimes complex matters. In its first four months of existence until the end of the fiscal year the panel was consulted 48 times.

The PPG carried on with the development of quality plans for various industry sectors, such as financial services, the public sector, real estate, healthcare and housing corporations (*woningcorporaties*). The plans were monitored and discussed on a quarterly basis. Within PPG, the exchange of sector-specific information was encouraged, in order to identify audit-related risks common to various sectors and

to apply, where appropriate, lessons learned in one sector to another, for example on real estate and property development valuation risks. The PPG emphasized the importance of the use of experts in areas such as valuations, pensions, tax and real estate. As a result, experts were involved in our audits more often than before.

Last but not least, the PPG further strengthened our network of quality partners. The PPG co-developed quality plans for our quality partners at office level (Local Quality Partners) and held regular meetings with them to discuss the execution of these plans.

Combined, all these initiatives had a positive effect on the quality control framework of our audits. Needless to say, we will take new initiatives to respond to changing risks and adapt to new regulations in a timely fashion.

### The Dutch Compliance Office

The principal task of our Compliance Officer is to monitor that our firm, our partners and our employees maintain high standards of integrity and comply with the rules laid down by or pursuant to Sections 13 through 24 of the Dutch Act on the Supervision of Audit Firms (*Wet Toezicht Accountantsorganisaties*). Our Compliance Officer - Nico Pul - reports to the policymakers and directly to the Chairman of our Board (Giljam Aarnink until 30 June 2014, Michèle Hagers as from 1 July 2014).

EY's globally consistent structure prescribes that compliance tasks are allocated to functions such as Risk Management (including the Independence Desk), the PPG and the General Counsel. Arrangements between the Compliance Office (CO) and these functions allow the CO to direct their compliance-related efforts when necessary and make use of their findings. These findings are reported to both the policymakers and the CO.

### Integrated Risk Analysis drives CO Investigations

Among other tasks and based on an integrated risk analysis, the CO assesses and monitors the design, implementation and results of our firm's efforts in the area of quality management. For example, the CO monitors whether Engagement Quality Reviews (EQR) are executed for all our engagements with respect to which the law or our internal rules require them, and it verifies whether the EQR clearance is documented appropriately and finished on time. 'Pre-screening' was introduced by the CO to assess, on a sample basis and before the audit is finished, the rigor applied by EQR reviewers. The results showed the reviewers had applied our EQR procedures appropriately.

The CO carries out investigations into quality processes and controls, in order to assess and monitor the design and operating effectiveness of the safeguards for high standards of integrity,

independence and quality within our organization. To the same end, it also performs topic- or case-driven investigations. Bi-weekly upcoming items and associated risks are discussed with the General Counsel and the Netherlands PPG and acted upon when necessary.

The CO proactively seeks to either prevent compliance issues from arising or discover and remedy them at an early stage. Wherever feasible, the CO involves EY managers and senior managers from outside its own office in research projects to further instill the right values within our firm. Another task of the CO is to arrange for our annual Audit Quality Reviews (AQR). The AQR consists in a review of a sample of audit files, covers a wide range of quality checks and forms part of EY's global AQR effort, allowing for comparability across member firms as well as in time. AQR results are a valuable indicator of audit quality, including audit teams' compliance with regulations and standards. They also provide insights that help us to determine where we can further improve our quality processes and controls.

This year, the CO extended its capacity with two FTEs to match increased review and monitoring efforts. Currently, our Compliance Office consists of four full-time staff and three part-time staff, including the Compliance Officer and the deputy Compliance Officer.

#### *Focus on Learning*

The CO duly noted reports by the AFM addressing the audit profession and our firm, and our responses, as well as the approach the PCAOB and the AFM applied during their regular inspection in 2013 and 2014. This allows the CO to better understand the AFM's requirements regarding auditors and audit firms. During their regular inspection of 2012 financial statement audits, the AFM also provided additional clarification regarding its interpretation of auditing standards. The CO will take these clarifications and other comments shared into account.

The CO addressed findings and observations raised by AFM in the first half of 2013/2014 regarding the CO itself, including the quality of internal reviews by the CO, the depth of CO's reviews and the timeliness of our reporting to the AFM. To bring our work in line with the expectations expressed by the AFM, we took various measures, including:

- increased proactive risk identification by establishing a bi-weekly risk meeting between the Netherlands PPD, the General Counsel and the Compliance Officer;
- implementation of a revised CO inspection framework, with the introduction of a quick initial inspection and (if warranted by the outcome of this initial inspection) a more detailed follow-up inspection, as well as a subsequent file inspection to investigate whether the issues discovered are present in

other files of the partner or director involved or the industry in question (*olievlekonderzoek*);

- introduction of interim reporting to the AFM, covering interim file inspection results;
- temporary recruitment of experienced reviewers to cover one vacancy and solve a backlog in internal inspections.

Through risk-based investigations, the CO proactively monitored our quality management. In fiscal year 2013/2014, a 'management letter' was developed to further formalize overall annual reporting by the CO to the policymakers. The management letter aims to provide a helicopter view to management on the CO's findings and observations during the year. Where the management letter identifies the necessity to make improvements, the CO monitors progress and reports on this progress to the policymakers on a quarterly basis. The CO attended meetings with the firm's Public Interest Committee, discussed its valuable suggestions and provided the committee members with various findings, observations and root cause analyses.

#### Contents of the following sections

In the following sections, we describe the principal components of our audit quality-control program:

- Instilling professional values
- Internal quality-control system
- Client acceptance and continuance
- Performing audits
- Review and consultation
- Audit partner rotation
- Audit quality reviews
- External quality-assurance reviews
- Compliance with legal requirements

## Instilling professional values

### Tone at the top

Senior EY leadership is responsible for setting the right tone at the top and demonstrating EY's commitment to building a better working world through its behavior and actions. While tone at the top is vital, our people also understand that quality and professional responsibility start with them. Our shared values, which inspire our people and guide them to do the right thing, and our commitment to quality are embedded in who we are and in everything we do.

Our approach to business ethics and integrity is embedded in our culture of consultation, our training programs and our internal communications. Senior management regularly reinforces the importance of performing quality work, complying with professional standards and adhering to our policies, leading by example and through various communications. Also, our quality review programs assess the quality of professional service as a key metric in evaluating and rewarding all professionals.

Our culture strongly supports collaboration and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We believe it is important to determine that engagement teams and clients correctly follow consultation advice, and we emphasize this when necessary.

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Our stance consistently has been that no single client is more important than professional reputation – the reputation of our firm and the reputation of each of our professionals.

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### Code of conduct

We promote a culture of integrity among our professionals. The Global Code of Conduct provides a clear set of the standards that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone at Ernst & Young Accountants LLP to guide behavior across all areas of activity:

- Working with one another
- Working with clients and others
- Acting with professional integrity
- Maintaining our objectivity and independence
- Respecting intellectual capital

Through our procedures to monitor compliance with the Global Code of Conduct, and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

The Global Code of Conduct is disclosed on our website and is evaluated periodically. The most recent evaluation was in July 2013.

In accordance with the Code for Audit Firms, we assessed the whistleblower and complaints procedures, as described in this section. In our opinion, these procedures have operated effectively during fiscal year 2013/2014 and reports were followed up appropriately.

The EY/Ethics Hotline provides our people, clients and others outside of the organization with a means to confidentially report activity that may involve unethical or improper behavior and that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. The hotline is operated by an external organization that provides confidential and, if desired, anonymous hotline reporting services for companies worldwide.

When a report comes into the EY/Ethics Hotline, either by phone or internet, it receives immediate attention. Depending on the content of the report, appropriate individuals from Risk Management, Talent, Legal or other functions are involved to address the report. All matters are handled by experienced individuals. For those matters that are reported outside of the EY/Ethics Hotline, the same procedures are followed.

During this fiscal year, no internal reports were filed through the EY/Ethics hotline. The EY/Ethics hotline is also open for external reports re. Ernst & Young Accountants LLP. In fiscal year 2013/2014, one external report was filed through our EY/Ethics hotline. The reporter was of the opinion that one of our EY professionals was misusing the name of EY. After investigating we concluded the allegations were unfounded and we closed the file. For reasons of privacy, it is not possible to be more specific about this particular case.

Through other channels, our firm occasionally receives comments, questions, complaints or demand letters from clients, liquidators or other stakeholders. Items raised include different expectations regarding the assurance or services delivered, our invoices, or the timeliness in the delivery of our services. Most issues are dealt with satisfactorily at the operational level, i.e. by the teams involved. More substantial comments, questions, complaints or demand letters are always dealt with at a higher level in the organization and are assessed and discussed on a case-by-case basis. Complaints or demand letters may lead to acknowledgement, apologies or a refutation. This year we received seven new complaints and six new demand letters. If necessary, based on a review of these complaints and demand letters, we will make changes to our system of quality control.

Financial Intelligence Unit – Netherlands

In accordance with the Dutch Prevention of Money Laundering and the Financing of Terrorism Act (WWFT), specific institutions have a legal duty to report unusual transactions to the Dutch Financial Intelligence Unit (FIU). The act aims to prevent unacceptable financial practices. During fiscal year 2013/2014, nine suspicious transactions were reported by Ernst & Young Accountants LLP to the Dutch Financial Intelligence Unit (during fiscal year 2012/2013, the number was 21).

Our values  
*Who we are*

People who demonstrate integrity, respect and teaming

People with energy, enthusiasm and the courage to lead

People who build relationships based on doing the right thing

## Internal quality-control system

Ernst & Young Accountants LLP's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence and professional skepticism. These are fundamental attributes of a high-quality audit.

At Ernst & Young Accountants LLP, our role as auditors is to provide assurance on the fair presentation of the financial reports of the companies we audit. We bring together qualified teams to provide our services, drawing on our expertise across industry sectors and services. We strive continually to improve our quality and risk management processes, so that the quality of our service is at a consistently high level.

We recognize that in today's environment – characterized by continuing globalization and the rapid movement of capital – the quality of our audit services has never been more important. As part of Vision 2020, EY continues to invest heavily in developing the audit methodology, tools and other resources needed to support quality service delivery – consistent with EY's goal to have the leading audit practice in our profession by 2020. This reflects the strength of our commitment to building a better working world and specifically to building trust and confidence in the capital markets and in economies world over.

While the market and stakeholders continue to demand high-quality audits, they also demand increasingly efficient and effective delivery of audit services. In addition to the investment mentioned, EY continues to seek ways to improve the effectiveness and the efficiency of the audit methodology and processes, while maintaining audit quality. We work to understand where our audit quality may not be up to our own expectations and those of stakeholders, including external audit firm regulators. We seek to learn from external and internal inspection activities and to identify root causes of quality occurrences for continuous improvement in audit quality, and we believe that an important part of the audit inspections process is to take effective and appropriate action to improve quality.

### Effectiveness of quality control system

EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). Ernst & Young Accountants LLP has adopted these global policies and procedures and has supplemented them as necessary to comply with local laws and

professional guidelines and to address specific business needs.

We also execute the EY Audit Quality Review (AQR) program in order to evaluate whether our system of audit quality control has operated effectively in a manner so as to provide reasonable assurance that Ernst & Young Accountants LLP and our people comply with applicable professional and internal standards and regulatory requirements.

The results of the AQR program and external inspections are evaluated and communicated within our firm to provide the basis for continuous improvement in audit quality, consistent with the highest standards in the profession.

The GE is responsible for implementing quality improvement and protection programs. As such, it reviews the results of our internal AQR program and external regulatory reviews, as well as any key actions designed to address areas for improvement.

The recent results of such monitoring, together with the recent feedback from independent regulatory inspection visits, provide us with a basis to conclude that our internal control systems are designed appropriately and are operating effectively.

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Risk analysis is not only at the heart of performing an audit. It is also at the heart of building an effective quality control system for performing audits.

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### Risk analysis

A generic risk paragraph with respect to all of EY's activities is included in the annual report disclosed on EY's Dutch website. The following paragraphs focus specifically on risks related to the performance of audits.

#### *Trust is key*

Our firm serves multiple industry sectors, and our professionals have different backgrounds. Risks vary for each market and specialization, but in all markets our main risk is a loss of trust by any of all relevant stakeholders. The backbone of the audit profession is the requirement that society at large must be able to rely on auditor's opinions. A loss of trust in the audit profession results in discomfort among stakeholders and actions beyond our control by regulators and lawmakers. Therefore, strengthening trust continuously is essential, and we are actively working to achieve this, through our efforts to maintain and further improve the quality of our work and through our dialogue with our stakeholders. Putting the public interest first is

embedded in our firm by our tone at the top, our training efforts, the decision-making processes of our policymakers, the work of support departments such as our Professional Practice Group (PPG), and the analyses, reviews and compliance tests of our Compliance Office (CO).

A loss of trust can result in dissatisfied clients, loss of clients, fines or even the loss of our license to operate. That is why maintaining high quality standards and adhering to risk management procedures are our key controls. In these efforts, we leverage our membership of the global EY network. We assess new regulations and translate them into guidance for our clients and our professionals. We make significant investments to support and train our professionals in order to ensure that we can provide the quality we strive for. We seek a dialogue with regulators to improve understanding of their assessments and requirements.

Public trust in the audit profession suffered severely from dissatisfying results from inspections by oversight boards and regulators such as AFM, PCAOB and NBA, as well as from incidents reported in newspapers. It is the responsibility of the audit profession to act appropriately. Trust is to be regained on the basis of the quality, relevance and reliability of our work.

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Investing in Quality - in fiscal year 2013/2014, we spent on average 5% more hours per assurance engagement, whereas average fees per engagement remained stable.

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There are three key areas of 'risks and responses to risks' regarding the quality of our work: our clients, our people and our procedures. As trust depends not only on quality but also on perception, our communications constitute a fourth risk area.

#### *The right clients*

Serving the right clients requires that we thoroughly assess potential new clients and continuously monitor existing clients, also considering industry trends. For our financial statements audit clients, we carry out a formal risk-assessment each year, addressing a wide range of questions. Relevant changes during the year result in reassessment. Relevant changes can include client-specific changes, such as deteriorating financial performance or weakening governance, but also industry trends or new legislation.

Based on this assessment, we define our risk response, which, for instance, could result in an Engagement Quality Review (EQR) being performed during the audit process, or in adding specialists to the team. Our risk assessment of a new or existing client may also result in us not accepting a prospective client or in the termination of an

existing relationship. We determine the number of hours necessary to perform a high-quality audit without considering the audit fee. If a client is not willing to pay a reasonable fee to allow us to perform the audit at the quality level required, we will decline to enter into or continue our relationship with that client.

#### *The right people*

Serving our clients with the right professionals means that we want to attract talented people, train them both in classrooms and on the job, while emphasizing professional skepticism, and deploy them in a way that allows them to develop themselves and join the teams in which their skills are required.

Allocating the people with the right knowledge and skills to a specific engagement is of key importance to reducing risk. In the past few years, many areas of our profession were faced with new, more detailed regulations. This resulted in additional training efforts for all professionals and also required specialists to join our teams. Many teams nowadays leverage IT specialists, actuaries and/or tax specialists. Valuation specialists are involved more often every year, for example during audits in the real estate sector and audits where financial derivatives play a relevant role. As these specialists have a background different from auditors, they need to be trained to assist audit teams in a way compliant with International Standards on Auditing (ISAs), both in what they do and in how they document their work.

Feedback on performance by our professionals is provided throughout the year and annually in our performance evaluation system and process. Quality is an important item in evaluating performance. Sub-standard quality performance directly impacts the overall performance rating, promotion opportunities and remuneration. Before being promoted to manager, senior staff have to join a one-day assessment session, to verify that both their technical knowledge and their skills are at least meeting expectations. Results of this session may include matters of attention or even a formal improvement plan. Before becoming a partner or executive director, senior manager's audit files are subjected to an AQR. Furthermore, the CO is requested to provide input regarding the quality performance of the senior manager, based on the reviews of their work in recent years.

We must attract and retain talented, committed people, even when our profession is under intense scrutiny and subject to public criticism. People educated and trained at our firm are attractive prospective employees for many other organizations. It is therefore essential that the audit profession in general and our firm in particular remains attractive in terms of work, public standing and rewards.

### *The right procedures and infrastructure*

Performing the right procedures is supported by the tools described in this Transparency Report and by a range of controls and dedicated units, including our Global Audit Methodology, our training programs, our PPG and our consultation procedures. If and when necessary, consultation can be extended to a Region or Area, or even to the Global level. EY makes significant investments at the Global level to improve its professional infrastructure.

On a quarterly basis, our PPG and industry leaders discuss industry trends and assess how to respond to changes. Cross-industry assessments are also made in order to identify at an early stage whether changes in one industry are likely to affect other industries.

In addition to the overall client acceptance and continuation risk assessments, which we perform yearly for our complete portfolio, we assess industry specific risks for the more regulated industries (e.g. Financial services, Health Care, *Woningcorporaties*, Public Sector). This assessment includes accounting and auditing risks. These risks are (re)assessed every quarter and these assessments are translated into appropriate quality measures, from including the audit in engagement quality reviews to involvement of experts, consultations with the PPG and supporting our professionals with specific work programs and detailed risk questionnaires on specific themes.

For example, the *Grondexploitatiepanel* was introduced in February 2014. This panel, which consists of real estate valuation experts, sector specialists and members of the PPG, advises our audit teams on the audit of valuation of land (development) positions at Municipalities and reviews the documentation and evaluation by the audit teams. Based on a risk based approach, a selection of 49 municipalities was made, proactively ensuring that all the audit teams involved in these engagements would consult the panel. The panel was consulted in 48 cases in fiscal year 2013/2014 and in one case after 30 June 2014.

In Health Care, all cure clients related audit engagements were assessed as moderate risk engagements, given the complexity of and controversies surrounding the applicable norms. A group of industry sector specialists was intensively involved in the discussion with the public Dutch Healthcare Authority (NZa), the NBA, and the Dutch Ministry of Health, Welfare and Sports to reach a solution and to clarify the norms. We are of the opinion that we as auditors have the responsibility to play our role vis-à-vis the sector, regulators and the public. NBA guidance ('Alert 31 and 32') was translated into specific audit and documentation guidance and the audit teams were informed weekly about the relevant auditing and

accounting issues. All adjusted auditor's opinions regarding the financial statements of care-giving institutions (*instellingen voor medisch specialistische zorg and aanbieders van curatieve GGZ zorg*) have been discussed with the PPG and consulted when appropriate. Specific audit questionnaires dealing with impairments risks, derivatives and appropriateness of invoiced cure services supported the audit teams.

A further risk is that an individual audit team does not maintain quality at the level required. Therefore, among other controls such as consultation requirements and EQR, we perform an AQR on a sample of completed audit files each year. Within EY, this review is performed globally and annually; findings are assessed and rated in a globally consistent way as well. At least one file of each audit partner is subject to review at least once every three years. An unsatisfactory outcome has a negative impact on the partner's earnings for the year. The partner is required to prepare a root cause analysis and he or she will again be included in the next AQR cycle. Regarding the AQR results we refer to the monitoring effectiveness section.

### *The right communications*

We need to communicate well with our stakeholders: executives, non-executives, shareholders and other providers of capital of our clients and of prospective clients; regulators, government and politicians; the media and society at large. We communicate both through our auditor's opinion and in other ways, including shareholders meetings, round table discussions and publications.

Starting with the 2014 financial statements, and in accordance with new rules from our professional association NBA, the auditor's opinion at OOB's (Dutch PIEs) will contain more information about critical areas identified and addressed during the audit as well as remarks by the auditor on the going concern assumption applied. These new Dutch rules are in line with proposals put forward by the IAASB. At the global level, EY piloted this approach; our firm participated in this pilot with eight clients.

We fully support the approach and direction taken by the IAASB in its effort to foster clear, insightful and transparent auditor's opinions. We expect the inclusion of key audit matters in the auditor's opinion to contribute to the relevance of our profession for society. It is important, however, to ensure consistent implementation of the new rules. Based on the evaluation of our pilots, we think it is particularly important to ensure clarity on the following points we communicated to the NBA:

- The respective roles and responsibilities of Executive Directors (*bestuurders*), Non-Executive Directors (*commissarissen*) and auditors should be clear.
- The selection of key audit matters is currently subjective and this may lead to confusion among users of auditor's opinions.
- It should be clear whether the auditor includes partial conclusions in his opinion.
- The relation between the 'going concern' paragraph and key audit matters should be clear.
- A level playing field is of essential importance.

The role of the auditor during shareholders meetings is changing. More and more, the auditor responds to questions raised by shareholders. At our clients, we spend more time with members of the Supervisory Board or, depending on the governance model, Non-Executive Directors. In these meetings we discuss various topics, including strategic, operational, financial, fraud and compliance risks the company faces. Because we are auditors, the focus in these risk-related discussions is mainly on financial and audit risks as well as the going concern assumption.

We continue to participate in committees and initiatives established by the NBA. The NBA develops and releases many risk-related publications, such as Open Letters, Public Management Letters and technical guidance for auditors on topics such as financial uncertainty in the healthcare sector.

We also hold stakeholder meetings to better understand current expectations from our stakeholders and discuss ways our audits, other assurance and communications could be improved and aligned to stakeholders' needs and expectations. During those meetings we also explained to stakeholders: our governance model and the Public Interest Committee, safeguarding independence (including ViO) and quality improvement efforts in the last number of years. Our Public Interest Committee, consisting only of external, independent members, challenged us on our communications regarding the above and the way we explain how we safeguard prioritizing quality and public interest when performing audits or other service engagements. This also contributed to improving the effectiveness of our communications with stakeholders.

## Monitoring effectiveness

During fiscal year 2013/2014, we continued to insist on strict compliance with our Global Code of Conduct by our partners and other professionals. We expect them to live up to high standards of integrity and professionalism and take action when they fail to do so. Monitoring is a key element of this pursuit of compliance and of our Internal Quality Control System. Risk mitigating controls regarding audit quality and compliance are tested throughout the year. Our monitoring controls, Panels, Consultation and AQR procedures generate valuable information and insights. Their results and the policymakers' statement are included in this Transparency Report.

Nevertheless, we continue to note some deficiencies, in both controls and audit files that we review internally. As such, the number of detected deficiencies is rather low relative to the number of audit engagements annually, but we believe each deficiency is one too many, as each deficiency can potentially reduce trust in our audits or auditors. Deficiencies identified are classified as infringements and/or incidents.

### Infringements

An infringement (*schending*) is recorded in case of a breach of certain formal internal or external rules and regulations. We keep a detailed register of all infringements by our partners and employees. These infringements vary widely as to their nature, seriousness and impact. Infringements are reported to our firm's policymakers, and an evaluation takes place as to whether procedures within the organization must be adapted and/or what measures should be taken against the infringing partner or employee.

The two most important categories of infringements are those of independence rules and those of rules and regulations regarding audits of financial statements. We provide information on independence-related infringements during fiscal year 2013/2014 in the 'Independence practices' section of this Transparency Report.

The table to the right shows the number of infringements of external rules and regulations related to the quality or quality control of audits of financial statements during fiscal year 2013/2014. The breakdown by type of client concerns their qualifications under Dutch law – they are either Public Interest Entities according to Dutch Law (*Organisaties van Openbaar Belang* or OOBs, such as listed and/or regulated clients), statutory audits (*wettelijke controles* or WeCos, i.e. financial statements audits required by law) or other audits of statutory financial statements (indicated below as non-WeCo). In total, we perform about 6,600 audits annually, of which about 3,600 are WeCos.

Type of infringement at financial statement audits 2013/2014	WeCo/ OOB	WeCo/ non-OOB	non-WeCo	Total
1. Engagement Quality Review incorrectly not applied		1		1
2. EQR concurrence notice sent to CO after release of auditor's opinion	3	2		5
3. Infringements resulting from Audit Quality Review 2012/2013 test cycle	1	2	1	4
4. Insufficient audit evidence in specific areas		8		8
5. Mandatory consultation not applied		5	1	6
6. Other	1	3	1	5
<b>Total</b>	<b>5</b>	<b>21</b>	<b>3</b>	<b>29</b>

Type of infringement at financial statement audits 2012/2013	WeCo/ OOB	WeCo/ non-OOB	non-WeCo	Total
1. Engagement Quality Review incorrectly not applied	1			1
2. EQR concurrence notice sent to CO after release of auditor's opinion	3			3
3. Infringements resulting from Audit Quality Review 2011/2012 test cycle		3	3	6
4. Insufficient audit evidence in specific areas		2		2
5. Mandatory consultation not applied				-
6. Other		2	2	4
<b>Total</b>	<b>4</b>	<b>7</b>	<b>5</b>	<b>16</b>

In a learning organization, we take a critical look at ourselves. We noted an increased number of internal inspections by our compliance office, resulting in more instances CO reported infringements. Also, as consultation requirements have increased, an increase of non-compliance in that area has been noted. In all cases, when needed, appropriate sanction actions have been taken against the auditors and teams involved. The firm as a whole takes benefit from the matters reported in an annual summary of lessons learned from infringements which is distributed to all Assurance personnel.

The infringements mentioned in the table on the previous page can be classified as follows:		Our follow-up has been (in all cases, as a general response, the partners or directors involved have been reprimanded):
1	Engagement Quality Review incorrectly not applied	The EQRs were performed at a later stage and confirmed the opinion as issued. Since the failure to apply an EQR mostly results from the failure to classify a client as an OOB, we clarified our OOB-status guidance for professionals and increased our efforts to review completeness of our OOB-list based on external data regarding listed entities.
2	EQR concurrence notice sent to the CO after release of auditor's opinion	We confirmed that the rules are clear and exhorted our professionals to comply with these rules.
3	Infringements resulting from the Audit Quality Review 2012/2013 test cycle	Each of the partners and executive directors involved has prepared a mandatory Remedial Action Plan. Implementation of this Plan has been reviewed by the Compliance Office. We refer to the AQR section of this Transparency Report, where improvement procedures are discussed.
4	Insufficient audit evidence in specific areas	These infringements result from internal reviews by the CO. Responses are similar to the follow-up of infringements resulting from AQRs. Furthermore, starting fiscal year 2013/2014, another file of the external auditor involved is selected (follow-up review), to investigate whether similar deficiencies are present in that other file ( <i>olievlekonderzoek</i> ). As a result, the number of CO inspections increased from 19 in 2012-2013 to 30 in 2013/2014. Follow-up reviews resulted in two additional infringements, similar in nature.
5	Mandatory consultation not applied	Three of these infringements relate to a specific situation in the pension fund industry. A number of pension funds announced a so-called 'haircut' ( <i>kortingsmaatregel</i> ) on the pension liabilities to improve their solvency ratio ( <i>dekkingsgraad</i> ). Based on NBA guidance, an additional paragraph had to be added to the auditor's opinion in these cases. Although this addition resulted, therefore, from NBA guidance, our rules dictate that every non-standard worded auditor's opinion must be consulted before it is allowed to be released. In three cases, our auditors failed to do so. We reemphasized our applicable rules to all professionals.

Increased communications and monitoring on the one hand resulted in an increased number of infringements. Regarding next year we expect that the number of EQR infringements will decline as a result of the measures taken in the meantime.

#### *Late archiving*

Not included in the tables on the previous page and above, are infringements regarding the archiving of audit files, as this concerns the timeliness of archiving of the audit file after sign-off only. Archiving means that an electronic copy of the audit file is stored in our archive system, after which it is no longer editable. For OOBs and other WeCos, external regulations set the maximum

period for archiving audit files (45-60 days after signing the auditor's opinion, depending on the applicable regime). In 2010, for quality and efficiency reasons, we set an internal filing deadline of ten business days after signing the auditor's opinion for all financial statement audits. When justified and subject to approval by the PPG, a longer period may apply.

We met the external rule of 60 days for 99.7% of all audit files. The deadline wasn't met for 20 files (2012/2013: 15). Five of these were WeCo files, fifteen were non-WeCo files. These files were reported to our Compliance Officer.

We met the internal ten business days archiving rule for 99.2% of the files (2012/2013: 99,1%).

With the Compliance Officer, we discussed how the firm goes about a more systemic review of quality control systems. Sometimes, an individual mistake or problem is discovered – a deficient auditor’s opinion, a lack of supervision, methodology knowledge not up to standard – and the firm implements individual and quality control measures to deal with this. An important instrument is the annual communication to all Assurance personnel, summarizing infringements and the actions taken.

### Incidents

Under Dutch law, we are obliged to inform the AFM immediately about any incident which might have serious consequences for the integrity of our operations. We apply AFM’s guidance on the interpretation of an ‘incident’. This interpretation is broad in scope and includes examples of risks that are not necessarily related to infringements nor to deficiencies in the quality of auditors’ work. For example, potential reputational damage to the firm can also qualify as an ‘incident’, even when it is linked to non-audit partners of, or non-audit services provided by, the Dutch EY network.

During fiscal year 2013/2014, we reported nine incidents to the AFM, the same amount as in the previous fiscal year.

- Four cases related to reputational risk to our firm. In two cases we have been stated liable because it was alleged we issued a wrong auditors report for clients who went bankrupt. In one case, staff of EY lost a management letter of a client. Another incident concerned repeated articles in the newspapers regarding development at municipalities.
- Four cases related to media reporting on potential non-compliance at our clients. In none of these cases EY is suspected of wrongdoing or stated liable.
- One case related to a potential independence threat. Under new Dutch independence standards, the position of one of our staff - not involved in the audit team - at a new client was incompatible with our firm performing the audit

We keep the AFM informed about our follow-up of incidents and – if applicable – report to the AFM on measures we have taken and their results. In summary the follow-up has been as follows:

- The two first cases date from years back and are currently in the courts. There was no reason to further investigate these cases. Regarding the loss of the management letter, we informed our client and emphasized our confidentiality procedures to our professionals. Regarding the topic that was reported more than once (valuation of land), we took the quality improvement measure to install a Land Development Panel mentioned earlier in this Transparency Report. The CO has started an investigation of the 2012 audit files and will

also investigate the 2013 audit files to observe the improvements in this area.

- The incidents that refer to non-compliance at our clients have been followed-up by the team, supported by the PPG. The CO inspected the audit files.
- The independence threat was related to a position held by an EY employee as municipal council member at a new audit client, a municipality. The employee was not a team member nor was the employee located in the office out of which the audit was going to be performed. Based on our understanding of the ViO it is not allowed to perform an audit engagement when an EY employee is a municipal council member at the client. Ultimately, the discussion regarding this independence threat resulted in the termination of the employment relationship as well as the termination of the audit engagement, before we actually started as auditors.

### Quality ratings of external auditors

All professionals receive a quality rating annually and quality ratings impact promotions and other growth potential directly.

Regarding ‘external auditors’ - partners and executive directors registered with the AFM - rating inputs result from our Audit Quality Reviews (AQRs) and assessments provided by the PPG, the CO, the Independence Desk and the General Counsel. Infringements and incidents are important input as well. If and when files of the auditor are subject to an external inspection, the results of this inspection are taken into account.

The quality ratings of our external auditors are part of the annual performance review process on a scale of D (worst) to E (best) as indicated in the table on the next page. In previous fiscal years, the scale was 1 to 5; 1 being the worst. Ratings M to E mean that the external auditor met or exceeded our high expectations, but it does not necessarily indicate that further improvement is not needed. The purpose of these ratings is to compare auditors to their peers. Rating D means that the external auditor did not meet our expectations.

Quality rating external auditors (partners and executive directors)	2013/2014	%	2012/2013	%
Quality rating D new (1 & 2 old)	8	6%	4	3%
Quality rating M new (3 old)	90	65%	77	56%
Quality rating E new (4 & 5 old)	40	29%	56	41%
Totals	138	100%	137	100%

- Rating D new – Did not meet our expectations
- Rating M new – Met our expectations
- Rating E new – Exceeded our expectations

Of course, as our ambition is that everybody meets our expectations, underperformance is not accepted. Improvement steps or plans are always made and monitored during the next year in case of a rating D.

In our new quality monitoring framework more quality aspects are taken into account, resulting in less partners and executive directors being fully compliant on each and every aspect. The following items are taken into account when establishing a quality-rating:

- Tone at the top
- Involvement in quality initiatives
- Participation in quality roles, such as PPG, Local Quality Partner, EQR, accounting reviewer, industry reviews
- Being a facilitator
- Attitude to and functioning in review of other persons' work, including training on the job
- Permanent Education requirements
- Attendance at mandatory training events
- Timeliness and well prepared compliance with requirements relating to consultation, accounting review and EQR processes
- AQR ratings
- Involvement in, and responses to, the AQR process
- Results from regulatory inspections
- Archiving violations
- Brand & reputation risk

The relatively low number of D-ratings as such is in accordance with our expectation, as only professionals that are expected to (at least) consistently meet our high expectations become executive director or partner. If in a certain year a partner or executive directors receives an underperformance rating, improvement steps are agreed upon and monitored during the year. Finally, reoccurrence of underperformance is not accepted and typically results in the executive director or partner leaving our firm or the assurance service line.

When the quality of the work is not up to standard, we take action. The following measures can be deployed after sub-standard work: disciplinary discussion (*normoverdragend gesprek*); a financial penalty; deregistration with the AFM, which implies that the partner can no longer sign audit opinions; and in very severe circumstances, sanctions can go as far as separation from the firm.

In order to move quality forward and motivate our professionals, we consider it also very important to apply positive incentives. Positive incentives, provided they are communicated broadly, often have a more direct beneficial impact on behavior towards good quality work than negative measures. Therefore, we have issued a Quality Award that is proving very appealing to our professionals. In fiscal year 2013/2014, three partners / teams were nominated for the Award.

## Client acceptance and continuance

### EY policy

The Client Acceptance and Continuance Policy sets out principles for member firms to determine whether to accept a new client or a new engagement or to continue an existing client or engagement. These principles are fundamental to maintaining quality, managing risk, protecting our people and meeting regulatory requirements. The objectives of the policy are to:

- Establish a rigorous process for evaluating risk and making decisions to accept/continue clients or engagements
- Meet applicable independence requirements
- Identify and deal appropriately with any conflicts of interest
- Identify and decline clients that pose excessive risk
- Require consultation with designated professionals to identify additional risk management procedures for specific high-risk factors
- Comply with legal, regulatory and professional requirements

In addition, the Conflicts of Interest Global Policy defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions for managing potential conflicts of interest as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining a client's consent for EY member firms to act for two or more clients to declining an engagement in order to avoid an identified conflict.

### Putting policy into practice

We use the Global Tool for Acceptance and Continuance (GTAC), an intranet-based system, for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC takes users through the acceptance and continuance requirements and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks. As part of this process, we carefully consider the risk characteristics of a prospective client and several due diligence procedures. Before we take on a new engagement or client, we determine if we can commit sufficient resources to deliver quality service, especially in highly technical areas, and if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new audit engagement may be accepted without the approval of our PPD.

In our annual client continuance process, we review our service delivery and ability to continue to provide quality service and confirm that clients share our commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate.

We dedicate significant time and resources to the strict implementation of our client acceptance and continuance policies. Of all audit engagements accepted and continued during fiscal year 2013/2014, we classified 57 engagements or 1% as 'Close Monitoring', 32% as 'Moderate Risk' and 67% as 'Low Risk'. For our audit engagements at Public Interest Entities as defined by Dutch law (Organisaties van Openbaar Belang, OOBs), these figures are 2%, 70% and 28%, respectively. The policymakers decide on the external auditor and EQR-reviewer of all listed entities and close monitoring audit engagements.

In fiscal year 2013/2014, six audit engagements were terminated during the audit process (tussentijdse beëindiging van een wettelijke controleopdracht), all of them non-OOB. Four engagements were terminated by the client due to bankruptcy. One was terminated in joint consultation between the client and the auditor and one was terminated by us. In this case the client was in financial distress, did not provide us with the necessary information, especially regarding going concern, to audit the financial statements 2010 and 2011 properly. We eventually withdrew from the audit engagement. The AFM is always informed about engagements terminated during the process.

### Close monitoring

As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit, and some audit clients are discontinued. As with the client acceptance process, our PPD is involved in the client continuance process and must agree with the continuance decisions.

Both client acceptance and client continuance decisions consider the engagement team's assessment of whether the company's management could pressure us to accept inappropriate accounting, auditing and reporting conclusions to undermine quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

## Performing audits

As part of Vision 2020, EY will spend US\$400m on improving audit methodologies and tools to continue to enhance audit quality. At the same time a major investment in technology and services, of US\$1.2b, will deliver transformational technologies to help EY member firms better connect with their clients. This investment is consistent with EY's goal to have the leading audit practice in its profession by 2020 and reflects our commitment to building a better working world and specifically to building trust and confidence in the capital markets and in economies the world over.

During fiscal year 2013/2014, partners and staff of our firm contributed in various ways to the implementation of the global efforts to further improve our audit methodologies and tools. Contributions included the work of one of our partners and his team on advanced data-analytics suitable even for the complex environment of financial institutions. We will continue these contributions during fiscal year 2014/2015.

In addition, in 2014/2015, we will invest significantly in various training programs: the mandatory NBA learning program regarding communication skills of our professionals in connection with the public interest and the stakeholders' dialogue; the NBA's knowledge test (*kennistoets*) for our professionals; and the 'file mentoring' program regarding the quality of our audits. In addition, we plan trainings for our partners and executive directors with respect to their communication with supervisory boards, the implementation of the rules for the new independent auditor's report and developments in the audit profession in the Netherlands.

### Audit methodology

EY's Global Audit Methodology (EY GAM) provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements. Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. EY GAM also emphasizes applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented when necessary to comply with the Dutch auditing standards and regulatory or statutory requirements.

EY GAM is organized into interdependent phases designed to focus on the client's business and financial statement risks and on how those risks affect our audit of the financial statements. EY GAM consists of three key components: requirements; supplemental guidance; and supporting forms, templates and examples. The

requirements reflect the typical flow of how our firm executes an audit. The supplements provide the requirements and guidance for specific situations and circumstances that may arise during an audit. The forms, templates and examples include leading practice illustrations and assist in performing and documenting audit procedures.

Enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. For example, EY GAM has been updated for the new requirements of ISA 610, *Using the Work of Internal Auditors*, relating to using internal auditors to provide direct assistance on the audit.

In addition, we monitor current and emerging developments continually and issue timely audit planning and other reminders. These reminders emphasize areas noted during inspections as well as key topics of interest to the International Forum of Independent Audit Regulators (IFIAR). These include professional skepticism, group audits, revenue recognition and engagement quality reviews.

EY GAM requires compliance with relevant ethical requirements, including independence from the company we audit.

### Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM. Our primary audit support tool, GAMx, drives uniform execution of EY GAM and appropriate audit documentation, strengthening our ability to deliver consistent, high-quality audits. It provides linked access to knowledge databases (audit guidance and interpretations), professional standards, documentation templates and other tools necessary to execute and document a risk-based audit effectively. GAMx facilitates engagement team collaboration through the sharing of information and the documentation of procedures and conclusions. GAMx also enables secure peer-to-peer communications, so our people can work together as if they were in the same physical location. Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in making and documenting audit considerations, sourcing data and analysis.

EY has a number of data analysis tools for use in audits. These help our engagement teams analyze a client's data, enhancing our risk assessment processes and enabling the investigation of higher-risk transactions for further investigation.

Formation of audit engagement teams

Ernst & Young Accountants LLP's policies require an annual review of partner assignments by our Assurance leadership and PPD to make sure that the professionals leading listed-company audits possess the appropriate competencies (i.e., the knowledge, skills and abilities) to fulfill their engagement responsibilities and are in compliance with applicable auditor rotation regulations.

The assignment of professionals to an audit engagement is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include competence, engagement size and complexity, specialized industry knowledge and experience, timing of work, continuity, and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialized or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal experts are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis. In fiscal year 2013/2014, specialists such as these spent a total of 116,000 hours (7%) supporting audit teams of our firm. Their relative spent varies per industry. In audit engagements in the financial industry, for example, the contribution of specialists is high and amounts, on average, to 10 % of the total hours spent.

The international exchange of professionals is considered of key importance to service international clients well, especially those that report under foreign accounting standards or require knowledge of foreign auditing standards. Professionals in exchange programs build up and add to the right expertise we need. During fiscal year 2013/2014, 17 Dutch professionals were employed abroad at other EY locations. 10 non-Dutch professionals were employed in our Assurance service line. The rank of these professionals varies from senior staff to partner.

Both at planning stage and based on hours spent, engagement hours are monitored and assessed for appropriateness. Hours realized can be summarized as follows:

Relative number of hours spent on financial statement audits	WeCo/OOB	WeCo/non-OOB	Non-WeCo
Partners & Executive Directors	8%	6%	5%
Senior Manager & Manager	22%	20%	19%
Senior Staff	28%	30%	31%
Staff	42%	44%	45%
Totals	100%	100%	100%

This analysis is also made with the distinction of engagement risk:

Relative number of hours spent on financial statement audits	Close monitoring	Moderate risk	Low risk
Partners & Executive Directors	10%	8%	5%
Senior Manager & Manager	26%	24%	17%
Senior Staff	29%	29%	31%
Staff	35%	39%	47%
Totals	100%	100%	100%

Of course, regular team members must possess the industry knowledge required. Over the past decades, our auditors have focused more and more on one or a few industries to be able to perform better audits and thus provide better quality to our stakeholders. Industry groups have developed specialized learning programs and technical updates. Audit quality is supported by industry and topic specific checklists.

## Review and consultation

### Reviews of audit work

Our policies describe the requirements for timely and direct senior professional participation as well as the level of review required for the work performed. Supervisory members of the audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Engagement partners perform a second-level review to determine adequacy of the audit work as a whole and the related accounting and financial statement presentation. A tax representative reviews the significant tax and other relevant working papers. For listed and certain other companies, an engagement quality reviewer (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the financial statements of the company we audit and our audit report. The nature, timing and extent of the reviews of audit work depend on many factors, including:

- The risk, materiality, subjectivity and complexity of the subject matter
- The ability and experience of the audit team members preparing the audit documentation
- The level of the reviewer's direct participation in the audit work
- The extent of consultation employed

Our policies also describe the roles and responsibilities of each audit engagement team member for managing, directing and supervising the audit, as well as the requirements for documenting their work and conclusions.

### Consultation requirements

Our consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. Consultation requirements and related policies are designed to involve the right resources, so that audit teams reach appropriate conclusions.

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Consultation is built into the decision-making process; it is not just a process to provide advice.

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For complex and sensitive matters, we have a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. In the interests of objectivity and professional skepticism, our policies

require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have served, within a specified period of time, the client to which the consultation relates.

Our policies also require that we document all consultations, including written concurrence from the person or persons consulted, in order to demonstrate their understanding of the matter and its resolution.

During fiscal year 2013/2014, the number of formal technical consultations with our PPG slightly decreased. The number of consultations on auditing standards, accounting, fraud and capital markets decreased from 1,307 in fiscal year 2012/2013 to 1,215 in fiscal year 2013/2014. 23 % of these consultations were related to 'going concern' issues (2012/2013: 22%); 28% dealt with topics related to modified audit opinions (2011/2012: 26%). These numbers do not include consultations with our RM/Independence Desk or informal consultations and inquiries.

The Fraud Panel discussed 71 consultation requests (41 in 2012/2013). In seven cases, the panel defined the fraud as (potentially) material. In all cases, our clients acted appropriately, making necessary further assessments in order to assess and solve the issue. The number of consultations with the Going Concern Panel remained stable at 283 in fiscal year 2013/2014 (287 in 2012/2013), reflecting the tough economic environment.

The Error Evaluation Panel was consulted in 46 cases (29 in 2012/2013). The panel concluded in two cases (non-OOB clients) that a fundamental error had occurred in previous year's audited financial statements. In both instances the fundamental error was detected by the engagement teams during the initial audit of a new audit client of our firm. In 34 cases (2 OOB, 32 non-OOB), the panel concluded that a material error had occurred (22 in 2012/2013). In 10 cases the panel concluded that the error was not material. In most cases the errors could probably have been prevented by more professional skepticism in previous audits. By incorporating the lessons learned from our error analyses in our learning activities the Error Evaluation Panel reinforces our learning organization and contributes to improving our quality. Dutch law requires amongst others that, in case of a fundamental error, a revised set of comparatives is prepared for the year in which the fundamental error occurred and that the auditor reviews his auditor's opinion. This follow-up procedure has now

been completed. Material errors are adjusted and disclosed in the first financial statements prepared after the error is detected. Our auditors verify that the disclosure satisfies the applicable requirements.

Cases of potential fraud, error and going concern issues often are also subject to inspection by our Compliance Office. The panels mentioned focus on the technical response to the issue; the CO assesses whether infringements occurred in previous year's audits. We refer to the monitoring effectiveness section of this Transparency Report.

#### Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered higher risk. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual. The engagement quality review spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed and the required documentation evidencing their completion. Our PPD approves all engagement quality review assignments for listed companies and those considered higher risk.

An Engagement Quality Review (*onafhankelijke 'opdrachtgerichte kwaliteitsbeoordeling* or EQR) is an important part of our quality control system. In the Netherlands, EQRs are mandatory for Public Interest Entities or PIEs (*Organisaties van Openbaar Belang* or OOBs). EY's global definition of a PIE is similar to, but not exactly the same as the Dutch definition of an OOB. 56% of the EQRs performed in 2013/2014 concerned OOBs or PIEs according to EY's global definition of a PIE. 44% of the EQRs were held at specific groups of non-OOB clients, including non-OOB high risk clients, our ten largest non-OOB clients, large municipalities, large pension funds and various state-owned entities.

During fiscal year 2013/2014, 564 (2012/2013: 496) EQR references were made to the Compliance Officer regarding 325 engagements (2012/2013: 392). One client may have multiple EQR references, for example due to the review of interim financial statements and/or prudential reports.

Engagement auditors are not allowed to issue the auditor's opinion until the reviewing auditor has informed the Compliance Officer that he agrees with the engagement auditor's conclusions.

#### Audit engagement team resolution process for differences of professional opinion

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a difference of professional opinion arises or if they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team by requiring them to raise any disagreements relating to significant accounting, auditing or reporting matters.

These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make their own views heard and canvas the views of others.

Differences of professional opinion that arise during an audit generally are resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, he or she has both the right and the obligation to see that the issue is referred to the next level of authority until agreement is reached or a final decision is made. Until such time, the parties to the discussion do not withdraw, step aside or otherwise extract themselves from the process. Furthermore, if the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the audit report is not issued until the matter is resolved by following consultation processes for resolving differences of professional opinion. Our documentation requirements for disagreements and their resolution are the same as for other consultations. Anyone involved in the process may separately document his or her personal position in an attachment to the documentation of the final decision.

## Audit partner rotation

EY supports mandatory audit partner rotation to help strengthen auditor independence. We comply with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA), the Dutch *Wet Toezicht Accountantsorganisaties*, the Dutch *Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten* (ViO), as well as the US Securities and Exchange Commission (SEC). Where required our firm supports audit partner rotation because it provides a fresh perspective and promotes independence from company management while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity and are important safeguards of audit quality.

For public interest entities where rotation of the audit partner is not mandated by local independence regulation or is less restrictive than the IESBA requirements, the EY Global Independence Policy requires the lead engagement partner and the engagement quality reviewer to be rotated after seven years. For a newly public interest entity (including a newly listed company) client, the lead engagement partner and the engagement quality reviewer may remain in place for an additional two years before rotating off the team, regardless of the time they served prior to the listing. Following rotation, the partner may not resume the lead or engagement quality review role until at least two years have elapsed.

We have tools to track partner rotation that enable effective monitoring of compliance with requirements. We have also implemented a process for partner rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.

### ViO partner rotation requirements

Effective 1 January 2014, new Dutch independence rules for auditors and audit firms, referred to as the Dutch Regulation regarding independence of auditors involved in assurance assignments (ViO) came into force.

We strongly support society's call for auditors to be independent both in fact and in appearance. The ViO stipulates that long association of senior team members of seven years or more may create a threat to independence. We assessed all situations as from 2014 for an impact on independence following long association with the client starting with our audit (WeCo/non-WeCo) clients.

In fiscal year 2013/2014 external audit partners and directors rotated on 54 OOB audit engagements, mostly because of the rotation requirements applicable to OOBs. Furthermore, and in response to the introduction of the ViO, we developed a policy for team rotation including measures to safeguard independence if in specific circumstances certain team members temporarily extend their association beyond seven years. This year and next year, this policy results in a rotation plan of all partners and directors on a major part of our assurance engagements.

### Other ViO requirements

ViO also resulted in amendments to our policies on topics such as non-audit services in combination with assurance engagements, fees, business relationships and financial interests. Also with regard to hospitality and social events new policies were implemented to adapt the new ViO rules. We provide more information in the Independence section of this Transparency Report.

ViO's text is available at the website of the NBA ([www.nba.nl](http://www.nba.nl)).

## Audit quality reviews

The Global Audit Quality Review (AQR) program is the cornerstone of our process to monitor audit quality. Ernst & Young Accountants LLP executes the Global AQR program, reports results and develops responsive actions plans. The primary goal of the program is to determine whether systems of quality controls, including those of Ernst & Young Accountants LLP, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures, professional standards, and regulatory requirements. The Global AQR program complies with guidelines in the International Standard on Quality Control No. 1, as amended (ISQC No. 1), and is supplemented where necessary to comply with Dutch professional standards and regulatory requirements. It also aids Ernst & Young Accountants LLP's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

The Global AQR program is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by the Assurance Leadership.

The engagements reviewed each year are selected on a risk-based approach emphasizing audit clients that are large, complex or of significant public interest. The Global AQR program includes detailed, risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit engagements. These measure compliance with the relevant professional standards and internal policies and procedures that should be applied in executing non-audit services. In addition, practice-level reviews are performed to assess compliance with quality control policies and procedures in the functional areas set out in ISQC No. 1. The Global AQR program complements external practice monitoring and inspection activities, such as regulatory inspection programs and external peer reviews.

In 2014, our firm's AQR resulted in the inspection of 61 audit engagements. In 2014, 98% of the engagements inspected were rated as having no material findings or deficiencies. These results compare to 61 engagements reviewed in 2013, of which 100%, were rated as having no material findings or deficiencies. Whether there are material or minor findings or deficiencies, we look at the findings from internal and external inspections to identify root causes, develop action plans and improve audit quality.

AQR reviewers and team leaders are selected for their skills and professional competence in

accounting and auditing, as well as their industry specialization; they often work in the Global AQR program for a number of years and are highly skilled in the execution of the program. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

The review team in the Netherlands is headed by international team leaders; the teams executing the AQRs also normally include a considerable number of international reviewers, ensuring that the AQR performed is in accordance with our international quality standards and allows for comparing results over time and between countries.

The results of the Global AQR program and external practice-monitoring and inspection activities are evaluated and communicated to improve quality. Any quality improvement plans describe the follow-up actions to be taken, the people responsible, the timetable and deadlines, and sign-off on completed actions. Measures to resolve audit quality issues noted from the Global AQR program, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD with input from Risk Management groups. The actions are monitored by our PPD and Assurance leadership. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.

### 2013/2014 AQR results

The 2013/2014 are in summary:

	2013/2014		2012/2013		2011/2012	
Rating 1	58	83%	52	85%	45	76%
Rating 2	11	16%	9	15%	12	21%
Rating 3	1	1%	0	0%	2	3%
Totals	70	100%	61	100%	59	100%

- Rating 1 - There were no or minor findings
- Rating 2 - The findings were more than minor but less than material
- Rating 3 - There were material findings

Rating results stabilized. As an encouraging underlying trend, the AQR 2013/2014 showed a decrease in the total number of findings in the engagements reviewed. With this in mind, we can conclude that AQR results improved for the fourth year in a row. However, the results still indicate that there is room - and a need- for further improvement, especially in the areas of audit strategy and risk assessments, reliance on IT and substantive analytical procedures, auditing fair value measurements, and supervision and review. We continue our efforts to ensure compliance with statutory rules and with our high quality standards

in all aspects of the audit. The message our leadership is continually sending to our partners and staff regarding the importance of quality in everything we do is part of this effort.

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It is encouraging to see that our quality improvements measures are resulting in a positive trend in AQR findings for the fourth year in a row. We stay focused though on what we still can and should do better.

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One of the engagements subject to the AQR resulted in a '3' rating due to an incorrect reference to applicable legislation in the auditor's opinion issued: to general law as opposed to the specific law applicable for municipalities. Incorrect wording in the opinion always leads to a material finding.

Compared to 2012/2013, we further improved the use of electronic audit evidence, journal entry testing and use of tax professionals and management experts, as well as the quality of documentation in our audit, partly in response to recommendations in this area from the AFM.

When partners are given a '3' rating on a file, it will negatively impact their remuneration. In case of a '2' rating, this may also be the result, since the goal and expectation for any engagement reviewed is a '1' rating.

28 engagements selected for AQR had also been subject to an EQR. 26 out of these engagements (93%) were rated '1' in their AQR; the other two were rated '2' (7%). In 2012/2013 these percentages were similar.

Our PPG analyzes whether remedial action is needed for engagements rated '2' and '3'. Furthermore, the audit partners involved are required to prepare a Remedial Action Plan (RAP) in which relevant actions aimed at improving their performance are to be included. The RAPs are submitted to our firm's Professional Practice Director for approval. The AQR 2012/2013

resulted in 7 RAPs. In 2013/2014 the AQR resulted in 3 RAPs, confirming the improvement of AQR results compared to the results in the previous fiscal year.

Each partner is subject to a regular AQR at least every three years. In addition to the audits inspected in the regular AQR, our Compliance Officer also selected partners for AQR inspection based on a risk analysis. This risk analysis takes into account any signals that might indicate potential quality issues. The results of these additional inspections - not included in the table above - are also reported to the policymakers. These additional inspections did not result in any '2' or '3' ratings.

The analysis of the overall outcome of the AQRs 2012/2013 resulted in a Quality Improvement Plan (QUIP). A QUIP-based checklist provided all audit teams with reminders of focus areas, as well as best audit practices. The items of the checklist needed to be implemented in all engagements and their implementation must be documented. Results of this year's AQR show a significant decrease in the number of findings related to the use of electronic audit evidence, journal entry testing and the use of tax professionals and management experts.

As during previous fiscal years, 'mini-AQRs' were organized to further foster high-quality audits. They consist of an internal review of the quality of the planning and interim phase of an audit, including possible interim reports. The aim is to pro-actively review quality before the auditor's opinion is issued.

The root cause analysis of the overall outcome of the AQRs from 2013/2014 will be finalized in October 2014. It will result in a QUIP covering the AQR findings. Common improvement areas will be discussed in internal technical update meetings and will be included as areas of attention during interim reviews at office level ('mini AQR's). In addition, where appropriate, the PPG or our industry groups will develop specific guidance and templates for improvement.

## External quality-assurance review

Our audit practice and its registered external auditors are subject to supervision by the AFM. As part of its inspections, the AFM evaluates quality-control systems and reviews selected engagements. The AFM also performs topic-related investigations (*thema-onderzoeken*) and case-specific investigations following incidents such as the bankruptcy of an audit client. We are also subject to other inspections from our Dutch professional association NBA and from the US PCAOB (Public Company Accounting Oversight Board).

Public companies, whether located in the US or abroad, access US capital markets by complying with certain US legal requirements, including the requirement to periodically file audited financial statements with the US Securities and Exchange Commission (SEC). Under the Sarbanes-Oxley Act, the auditor of those financial statements – whether a US auditor or a non-US auditor – must be registered with the PCAOB, and the PCAOB must regularly inspect the firm to assess its compliance with US law and professional standards in connection with those audits. Our firm is registered with the PCAOB.

Legislation adopted in 2012 allows the AFM and the PCAOB to perform ‘joint inspections’ in the Netherlands. In 2012 the AFM and the PCAOB agreed on a formal arrangement, a statement of protocol, in which the cooperation regarding inspections and the exchange of information were defined. Joint-inspections in the Netherlands are expected to be scheduled every three years. The PCAOB and the AFM performed their first joint inspection at our firm in the first half of 2013. The PCAOB issued their report on 1 May 2014. The AFM included their joint inspection findings in the AFM’s regular quality assurance inspection 2013/2014. Below, both inspections are described in more detail.

The second part of the latest regular quality assurance inspection by the AFM took place in fiscal year 2013/2014. The final overall report on the inspection was issued on 25 September 2014. The final firm specific report on the inspection is expected to be issued in the last quarter of 2014.

We respect and benefit from the inspection process by the PCAOB and the AFM. We thoroughly evaluate points raised during the inspection in order to identify areas where we can improve audit quality. Together with our AQR process, external inspections help us in making our audits and related control processes of the highest quality in the interests of investors and other stakeholders.

Information on the PCAOB can be found on its website [www.pcaobus.org](http://www.pcaobus.org). Information on the AFM can be found on its website [www.afm.nl](http://www.afm.nl).

## Inspections

### *PCAOB - Report on the joint inspection*

In our previous fiscal year’s Transparency Report we summarized the PCAOB’s preliminary observations. The PCAOB’s final observations were unchanged from its preliminary observations.

On 1 May 2014 the PCAOB issued their inspection report in which they concluded that for two of three inspected engagements, their review did not result in reportable material findings. The PCAOB published this report on their website. Regarding the third engagement, the PCAOB noticed various deficiencies related to audit procedures performed under PCAOB standards (generally accepted auditing standards in the United States of America) to evaluate and test certain internal controls and related account balances related to revenues, accounts receivables and inventories.

Upon receipt of the individual inspection comments, we undertook a process to assess and as necessary, execute remedial actions to address the inspection issues noted. These efforts did not identify any circumstances that would impact our previous audit conclusions for this engagement. We took good note of the findings resulting from the joint inspection and have initiated additional actions to improve the quality of our work in the related audit areas, including extra training of our professionals performing audit engagements conducted under PCAOB standards and increased interaction with US colleagues in these audits and adding them to the team. Certain parts of the PCAOB Inspection Report are not made public. We have a 12-month period to address the quality control criticisms to the satisfaction of the PCAOB. This is the normal procedure for PCAOB inspections.

### *AFM - Regular quality assurance inspection*

The joint-inspection of the three audit engagements by the AFM mentioned above was the first part of the AFM’s regular 2013/2014 inspection. The AFM has subsequently completed their inspection with the inspection of seven additional audit engagements. In June 2014, the AFM finished their inspection. The AFM concluded in their draft report, issued on 1 July 2014, that regarding five of the additional seven engagements inspected, their review did not result in reportable findings. The AFM concluded that in two audit engagements the auditors failed to comply, or complied insufficiently, with applicable rules and standards in performing statutory audits.

These two audit engagements concern a municipality and a publishing house. The findings with respect to the audit of the municipality relate to shortcomings in the audit of the valuation of

land development as well as in the audit of the tendering and purchase processes. Regarding the publishing house, the AFM noticed various deficiencies concerning audit procedures performed under Dutch standards to evaluate and test certain internal controls and related account balances with respect to revenues, accounts receivables and inventories. The AFM also noticed shortcomings in the approach and execution of substantive procedures and analytics related to sales and inventories of printed books.

Combined with the three joint inspection engagements, seven out of ten files did not reveal reportable findings, whereas three did result in reportable findings. After the 2009 regular investigation, the AFM reported serious findings in respect of six out of the nine statutory audits investigated. Although this can be regarded as an improvement, the 2013/2014 result is not acceptable to us. We have taken action and will take further action, including measures regarding our quality control framework.

The AFM holds the view that in the three unsatisfactory engagements, the external auditors failed to obtain sufficient and appropriate audit evidence in respect of audits of significant and material items and subjects in the financial statements. As a result, the external auditors failed to reduce the audit risk to an acceptably low level. Therefore, the opinion on the financial statements as a whole has been insufficiently justified. We concur with the conclusions of the AFM. Upon receipt of the individual inspection comments, we undertook a process to assess and, where necessary, execute remedial actions to address the inspection findings noted. As these efforts did not identify any circumstances that would impact our previous audit conclusions for these engagements, no other auditor's opinions resulted.

We took good note of the findings and assessed root causes. We investigated whether the shortcomings as identified by the AFM occur more often. As a result, we have initiated additional actions to improve the quality of our work in the related audit areas. These include the introduction of a technical panel supporting the engagement teams with their audit of the valuation of land development for clients in the public sector, developing additional guidance for our EQR reviewers, and sharing the findings with all executives during technical training.

In addition, root cause analysis showed that the portfolios of the partners involved were such that they spent too little time supervising audit quality. Therefore, changes were made to the portfolios of the partners involved, allowing them to spend more time on less tasks. Since mid-2013, more detailed regular portfolio analyses of our executives have been and are being performed, to assess whether the same root cause might affect quality of other audit engagements. Initial changes have been

made to portfolios and further changes are expected.

An EQR had been performed for the three audit engagements where subsequently significant deficiencies were discovered during the inspections. We verified that the EQRs had been executed in accordance with applicable standards and policies and that these are aligned with international standards. We concluded that the reason findings were not prevented by the EQR, is that the focus of the EQR is 'an objective evaluation of significant judgments and conclusions' of the engagement team and not a re-performance of the file review performed by the executives in the teams. We will give this matter more consideration within EY and in discussions with the AFM and with standard setters.

At two of the ten selected engagements an AQR had been performed in 2012/2013. These two reviews resulted in an AQR '2' rating (findings were more than minor but less than material). During their own inspection, in one of these two engagements the AFM found deficiencies the AQR reviewer should have noticed but did not. As one observation is not enough to draw conclusion regarding our AQR in general, our CO will re-perform a sample of engagements that were subject to our AQR process in 2013/2014, using the criteria of the AFM in order to find out whether the same discrepancy of results shows up. The results of this review by the CO might provide information to further improve our AQR process.

In the meantime, as we are constantly looking to improve our processes, we are taking some important initiatives regarding our AQRs, in close cooperation with our colleagues from the international EY network. For example, the CO will give more support to the AQR teams by performing 'pre-inspections'. The outcomes of these pre-inspections will allow the AQR teams to focus more on risk-selected areas of the audit under review.

#### *Learning organization*

The most important thing about findings is to learn from them and reduce the risk of reoccurrence in the future. Probably, auditing is one of the most if not the most complex professional service, considering regulations applicable to both clients and auditors, globally and locally. At the global level, EY makes significant investments to keep audit methodology, audit tools and audit templates state of the art and to increase ease of use. At Area and Region and local level, additional investments are made to align with changes in local law and regulations, including legislation by regulatory bodies. When making these investments, external quality-assurance review findings are taken into consideration too.

We inform our regulators periodically about improvement measures implemented and

investment targets set, and take their feedback into consideration while progressing.

In the table below, we summarize our responses to the findings made by the AFM and PCAOB. The page after we highlight our further responses in 2014/2015.

Overview of PCAOB and AFM file review findings	Key items of our remediation responses
<p>1 File 1 (joint inspection): deficiencies related to audit procedures performed under PCAOB standards (generally accepted auditing standards in the United States of America) to evaluate and test certain internal controls and related account balances related to revenues, accounts receivables and inventories.</p>	<p>Additional audit procedures have been performed: increase understanding of internal controls and IT-controls at the client, determine additional controls that the audit team would like to rely on and test these controls. Additional substantive procedures have been performed related to the movement of goods and receivables. The remediation steps did not result in another auditor's opinion.</p> <p>Our CO reviewed another engagement of the partner concerned resulting in similar findings. We evaluated the portfolio of the partner involved, including other roles in our firm. As a result, changes will be made to the roles of this partner.</p>
<p>2 File 2 (AFM inspection): shortcomings in the audit of the valuation of land development as well as to the audit of the tendering and purchase processes.</p>	<p>Additional audit procedures have been performed related to the processes involved: Risk analyses were reassessed, additional testing of controls was performed. Detailed analytics were performed. The remediation steps did not result in another auditor's opinion.</p> <p>Currently, our CO is reviewing another engagement of this partner and other engagements in this industry. We evaluated the portfolio of the partner involved. As a result, partner resources will be added to this industry group and the number of clients of this partner will be reduced.</p>
<p>3 File 3 (AFM inspection): deficiencies related to audit procedures performed under Dutch standards to evaluate and test certain internal controls and related account balances related to revenues, accounts receivables and inventories. AFM also noticed shortcomings in the approach and execution of substantive procedures and analytics related to sales and inventories of printed books.</p>	<p>Additional audit procedures have been performed related to the processes involved: Risk analyses were reassessed, additional testing of controls was performed. Detailed analytics were performed. The remediation steps did not result in another auditor's opinion.</p> <p>Our CO reviewed another engagement and further deficiencies were noted. Subsequently, we evaluated the portfolio of the partner involved, including other roles in our firm. The partner will transfer fully to the non-audit service line.</p>

Culture and people will be our main focus in the endeavor to further raise the quality of our work. Next to state-of-the-art audit tools, the mindset and skills of auditors are the most important factor determining the quality of audits. Auditors should constantly and almost instinctively know and feel that 'striving for high quality' is the right thing to do. They should not want to settle for anything less. Over the last few years, our firm has worked hard to further embed this 'top quality' mentality throughout our organization, among all our professionals.

Considering improvements are visible, we believe we have chosen the right direction. The direction is right, the results are not yet satisfying. Further steps will include:

- detailed root cause assessment based on the observations resulting from both internal and external inspections;
- enhancing our culture as described above;
- leveraging AFM and PCAOB findings by analyzing and discussing root causes with our professionals, to increase their understanding of the findings and support of the necessity to make the necessary change of culture;
- additional learning and training efforts;
- review and reconfirm portfolios of individual professional, to make sure portfolio sizes and characteristics are balanced and manageable;
- first phase roll-out of our new audit tool EY/Canvas and related standardized approaches, that are designed to simplify the execution of effective and compliant audits.

#### *Other case specific inspections by AFM*

Following articles in the media in 2012, AFM started two case specific inspections, In one case the AFM did not conclude that the auditor had failed to obtain sufficient and appropriate audit evidence. The AFM concluded though that the level of detail and documentation of the internal inspection by our CO should be improved. In the Compliance Office section of this Transparency Report, improvements following this conclusion by AFM have been described. The other inspection has currently not yet been completed. AFM has shared a draft report with findings. We have sent a written response and are awaiting their response. We will further discuss this inspection in our Transparency Report 2014/2015.

#### *NBA - 2011 SISA inspection follow-up*

Dutch municipalities and provinces have so-called SISA (Single Information, Single Audit) reporting requirements to the Dutch Ministry of the Interior and Kingdom Relations (*Ministerie van Binnenlandse Zaken en Koninkrijksrelaties*) regarding specific government contributions they receive.

SISA results in the attachment of a detailed annex to municipalities' financial statements, which is subject to external audit. The internal audit department of the Dutch Ministry of Finance performed an investigation into the 2011 Financial Statement SISA annexes of a number of municipalities, including 8 out of 140 audited by our firm. The internal audit department detected errors in too many cases. This was reason for us to further improve our system of quality review related to SISA reporting. We have provided more technical training to the engagement teams involved and introduced a system of additional quality reviews. Our improvements efforts resulted in a positive outcome of the subsequent SISA inspection as reported to us by the Ministry on 9 December 2013.

Following the results of the initial '2011'- investigation, at the national level of the audit profession, our professional organization NBA coordinated discussions with the Ministry and agreement was reached in December 2013. According to this agreement, further guidance by NBA and others will be developed and findings will be shared with the AFM and each of the municipalities and provinces.

## Compliance with legal requirements

The EY Global Code of Conduct provides a clear set of standards that guide our actions and business conduct. Ernst & Young Accountants LLP complies with applicable laws and regulations, and EY's values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, including:

### Anti-bribery

The Anti-bribery Global Policy provides our people with direction around certain unethical and illegal activities. It emphasizes the obligation of our people to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered. In recognition of the growing global impact of bribery and corruption, efforts have been increased to embed anti-bribery measures across EY, and training is mandated for all our people.

### Insider trading

The Insider Trading Global Policy reaffirms the obligation of our people not to trade in securities with insider information, provides detail on what constitutes insider information and identifies with whom our people should consult if they have questions regarding their responsibilities.

### Trade sanctions

Given the level of EY's global integration, it is important that we are aware of the ever-changing situation in respect of international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to our people on impacted activities.

### Data privacy

The Global Personal Data Privacy Policy sets out the principles to be applied to the use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers and business associates. This policy is consistent with applicable laws and regulations concerning data protection and privacy when processing personal data. It provides a foundation for maintaining the privacy of all personal data used by Ernst & Young Accountants LLP.

### Document retention

Ernst & Young Accountants LLP's record retention policy applies to all engagements and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. It also addresses Dutch legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.

### Compliance confirmation by professionals

Our professionals, and certain other persons based on their role or function, are required annually to confirm compliance with the EY Global Code of Conduct, which includes confirmation of compliance with applicable laws and regulations, such as mandatory rules in the Netherlands.

# Litigation

## Transparency in the Public Interest

When performing their work, individual external auditors and their firms must put the public interest first. Therefore, when our firm must decide what information to provide to society at large, the main question we ask ourselves is: what degree of transparency serves the public interest?

In the world of auditing, the public interest is basically the quality of audits and audit opinions, including reliability and relevance. That is why we focus on quality issues in our communications with the outside world. This quality-focused transparency also includes being open about what we learn from internal and external reviews, and from instances in which the quality of the work of our firm or one of its auditors is questioned. For us, transparency in these cases is about communicating what lessons we have learned and what we are doing to further improve the quality of our audits.

We fully acknowledge that such quality-focused information may at times be more technical and tedious than other information related to these inspections or instances of controversy.

We believe that from the perspective of the public interest, it is more important that we are transparent about the lessons learned from recent or current inspections and controversies as opposed to providing information regarding, for example, the amount for which we have settled a civil case related to an audit performed many years ago.

In our litigious society, there will always be tension between the duty and, indeed, the desire to be transparent, in the public interest, about lessons learned, on the one hand, and the need to be prudent from a legal point of view and not to weaken one's position in existing litigation or induce new litigation, on the other. What is more, in many cases there will be legal and contractual restrictions to our transparency, or our external communications may be limited by our duty to respect the privacy of individual persons involved.

In a healthy society, the degree of transparency of private firms will always be a matter of debate. We accept that debate and will try to focus on the essential question: how can we align our transparency with the public interest?

## Disciplinary cases

During fiscal year 2013/2014, four new disciplinary proceedings were initiated against auditors of our firm.

One complaint was filed against two auditors of our firm and related to the depreciation of replacement investments in the annual accounts of a municipality. The Disciplinary Council of Accountants and Auditors (*Accountantskamer*) decided the complaint was partly inadmissible and partly unfounded. An Appeal was filed at the Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven*, which is the tribunal for appeals from the Council).

Another complaint was filed by a group of investors in a limited partnership. The complaint was filed against the auditor, because of alleged errors in the annual accounts for 2012. The Disciplinary Council held a court hearing in July 2014. We are currently awaiting the Council's decision.

Indirect shareholders in a private limited liability company filed a claim against the auditor of that company. In the past, the auditor also audited the annual accounts of the direct shareholder of that company. Complainants claim that the auditor did not audit the annual accounts properly. Furthermore, they claim that an assurance report issued by the auditor was not in compliance with applicable regulations. The Disciplinary Court decided in July 2014 that part of the claim was inadmissible. The other part was declared unfounded. An Appeal was filed at the Trade and Industry Appeals Tribunal by the complainant.

The fourth complaint that was initiated in 2014 relates to the auditor of a municipality. The complainant is of the opinion that the auditor did not anticipate the ViO in a tender procedure and that after the ViO came into force these independence rules were applied too strictly. Complainant withdrew the complaint before the Disciplinary Court hearing took place and the case has since been dismissed.

In addition to the four new disciplinary proceedings mentioned above, three disciplinary proceedings that were initiated before 1 July 2013 are still pending.

One proceeding was initiated by the AFM against the auditor of DSB Bank. Further details of this proceeding are included in our 2012-2013 Transparency Report. The Trade and Industry Appeals Tribunal heard the case in June 2014 and we are currently waiting for the Tribunal's judgment.

The second complaint was filed against an auditor who issued an assurance report to a trustee in a bankruptcy. Complainant claims that the report is not in compliance with applicable regulations. The Disciplinary Court decided that the complaint was unfounded. The complainant appealed the decision. The hearing by the Trade and Industry Appeals Tribunal took place in September 2014. We are currently awaiting the Tribunal's decision.

The third complaint was issued by a counterparty of an audit client of the auditor. The complainant complained that the auditor failed to respond to one of complainant's letters and refused to attend a meeting with complainant to provide complainant with a professional opinion on a final court judgment in proceedings between complainant and the audit client. The Disciplinary Court decided in August 2013 that the complaint was unfounded. The complainant appealed the decision. The Trade and Industry Appeals Tribunal has not yet set a date for a hearing.

Claims under civil law relating to professional conduct

During fiscal year 2013/2014, one new case under civil law was brought against the firm. This case was initiated by Foundation Finidaf. This organization claims EY is liable for damage suffered by bondholders as a result of the bankruptcy of DAF NV. The claim relates to the annual accounts of DAF in 1991. In a disciplinary proceeding initiated against EY's auditor who was responsible for the audit of DAF's annual accounts in 1991, the disciplinary court ruled in 2001 that the auditor was not to blame. We are therefore confident the civil claim will be denied.

In four pending cases, the courts have not rendered their decisions yet. These cases may take several years.

One case, where EY was included in proceedings between buyers and sellers of a group of companies, was withdrawn during fiscal year 2013/2014 as the buyers and sellers reached a settlement.



## Independence practices

EY Independence policies require Ernst & Young Accountants LLP and our people to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) and Dutch independence rules.

We consider and evaluate independence from several perspectives, including: our financial relationships and those of our people; employment relationships; business relationships; the permissibility of non-audit services we provide to audit clients; partner rotation; fee arrangements; audit committee preapproval, where applicable; and partner remuneration and compensation.

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Failure to comply with applicable professional independence requirements will factor into a person's promotion and compensation decisions and may lead to other disciplinary measures.

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We have implemented EY's global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

### EY Global Independence Policy

The EYG Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code of Ethics, with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EYG Independence Policy is readily accessible and easily searchable through EY's intranet. The Dutch Independence Supplement explains the new Dutch statutory requirements for all EY professionals. Various communications occurred with independence leaders throughout the world in order to foster compliance with these far reaching requirements. Our independence team is also embedded into the firms 'Our New World' initiative which co-ordinates our responses to the audit firm rotation regulations, thereby ensuring that our guidance is compliant and that questions from

professionals are not only appropriately responded to but feedback is continuously integrated.

### Global Independence System

The Global Independence System (GIS) is an intranet-based tool that helps determine the listed entities from which independence is required and the independence restrictions that apply to each. Most often these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people determine the type of services that can be provided.

Starting 2012/2013, we have substantially increased our review of both existing audit clients but also of other significant public entities as part of our readiness process for future firm rotations. We currently track Dutch PIEs to assess the expected rotation date and have developed internal screening and decision protocols to assess our independence well ahead of the expected request for proposal dates. For the largest public entities we track our non-audit services continuously both in the Netherlands and abroad. These additional processes require a considerable investment for the firm both in the Netherlands and abroad.

### Global Monitoring System

The Global Monitoring System (GMS) is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. People ranked as manager and above are required to enter any securities they hold, or those held by their immediate family, into the GMS. When a person enters a proscribed security, they receive a notice and are required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters.

GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below.

## Independence compliance

EY has established a number of processes and programs aimed at monitoring the compliance with independence requirements of EY member firms and their people. These include the following activities, programs and processes:

### *Independence confirmations*

Timely and accurate completion of annual and quarterly independence confirmations is a high priority for the responsible leadership teams.

Annually, Ernst & Young Accountants LLP is included in an Area-wide process to confirm compliance with the Global Independence Policy and requirements and to report identified exceptions, if any. All EY professionals, and certain others based on their role or function, are required to confirm compliance with independence policies and procedures at least once a year. All partners are required to confirm compliance quarterly.

### *Global Independence Compliance Reviews*

EY conducts a number of testing and member firm visits to assess compliance with independence matters. These include reviewing for non-audit services, business relationships with the companies we audit and financial relationships of member firms. Each year, EY's global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS.

For the 2014 testing cycle, we tested more than 240 partners and other personnel.

The Global Independence Audit last occurred during December 2013 and June 2014.

### *Non-audit services*

We monitor compliance with professional standards governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools (e.g., GTAC – see Client acceptance and continuance section and Service Offering Reference Tool (SORT) – see below), training and required procedures completed during the performance of audits and internal inspection processes. Since last year, we have increased our monitoring of other services on Dutch PIEs (OOB) under the new Dutch independence rules. Various changes in our prevent controls embedded in GTAC and GIS processes, combined with robust detect controls using queries and exceptions reports, measure our compliance with the new Dutch regulations.

### *Global independence learning*

EY develops and deploys a variety of independence learning programs. All professionals and certain other personnel are required to participate in

annual independence learning to help maintain our independence from the companies we audit.

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The goal is to help our people understand their responsibility and to enable each of them, and EY, to be free from interests that might be regarded as being incompatible with objectivity, integrity and impartiality in serving an audit client.

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The annual independence learning program covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely. We have supplemented this program with local content through 'Our New World' and ViO initiatives to cover local independence requirements. In addition to the annual learning program, independence awareness is promoted through a number of events and materials, including the new-hire program, milestone programs and core service line curricula.

### *Service Offering Reference Tool (SORT)*

We assess and monitor our portfolio of services on an ongoing basis, confirming that they are permitted by law and professional standards, and to make sure that we have the right methodologies, procedures and processes in place as new service offerings are developed. When appropriate, we exit or restrict services that could present undue independence or other risks. SORT provides our people with information about our service offerings. SORT includes guidance around which services can be delivered to audit and non-audit clients, as well as independence and other risk management issues.

### *Business Relationship Evaluation Tool (BRET)*

BRET helps to support our business relationships' compliance with independence requirements. Our people are required to use BRET in many circumstances to evaluate and obtain advance approval of any potential business relationship with an audit client.

### *Audit committees and corporate governance*

We recognize the important role audit committees and similar corporate governance bodies play in the oversight of auditor independence. Empowered and independent audit committees play a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. We are committed to robust and regular communication with audit committees or those charged with governance. Through our quality review programs, we monitor and test compliance with our standards for audit committee communications, as well as the pre-approval of services, where applicable.

## Independence monitoring

Our Risk Management (RM) group in the Netherlands deals with cross-service line RM. Among other tasks, it monitors compliance with relevant independence requirements. The Dutch Independence Desk is managed under the responsibility of the Netherlands Independence Leader Bernard Roeders.

The central RM team deploys approximately 14 FTEs that serve all professionals and service lines. In addition to its various key control functions, Central RM handles all independence-related consultations and we continue to receive, on average, some 2,500 independence-related email inquiries and about 500 independence confirmation requests annually in the Netherlands alone. The nature of the questions has shifted more to the new independence rules applicable in the Netherlands. Furthermore, the 'Our New World' task force has received numerous questions from both professionals and clients which have allowed us to update our guidance and be more proactive with FAQ guidance. Questions that require consultation with subject matter experts are discussed with Area and Global resources. Questions relating to the new rotation requirements following the ViO (Decree on auditors' independence in the Netherlands) are addressed by a consultation group of Independence and the PPD.

RM's key controls and monitoring procedures cover the following areas: monitoring independence training and independence confirmations, recording personal financial interests in the Global Monitoring System (GMS) held by professionals at the level of manager and above, testing compliance with RM policies, including client and engagement acceptance and independence assessment of non-audit services, business relationships, directorships, gifts and hospitality and data quality control in our systems. Our GMS systems, for example, currently monitors in excess of 6,000 securities held by our Dutch professionals. Our independence monitoring activities enabled all of our partners and other professionals to complete mandatory training on the new independence regulations and confirm their independence through our annual confirmation process (quarterly for partners).

Compliance with the requirements of GMS is monitored through our Personal Independence Compliance Testing (PICT) program, which is designed to cover both partners and other executives (directors and (senior) managers). Our sample sizes vary from year to year and aim to ensure that all partners are tested at least once every three years with certain partners in managerial roles to be selected more frequently. Approximately 40 partners were tested in the period covered. Last year's test results at the partner level were positive overall. PICT testing for partners revealed a smaller number of formal violations with internal policies, such as late entry

in our monitoring system of non-prohibited listed investments and the use of incorrect ISIN codes. The findings resulted in two independence breaches which were caused by specific circumstances.

Our expanded testing program for other executives confirmed a need for improvement with respect to timely and complete reporting of securities, notably with respect to certain securities related to other financial products such as mortgages or long term benefit arrangements. Over 200 persons were tested, with 6 independence breaches. Most untimely recorded securities that were noted were held by professionals who were not involved in audits for clients of which they held securities.

Compliance with RM policies, including acceptance of non-audit services, is managed through our Compliance Teams. In addition to the reviews by the Global Independence Audit Team (GIA), we have a local compliance review process in place. All tests performed through the local compliance review process are reviewed by the GIA. The most recent review of GIA took place last year with a visit in December 2013, as well as a visit in June 2014. The overall results were positive, with a few suggestions for improvement.

We have been reviewing business relationships entered into by EY for several years. We generally track, on average, some 300 active business relationships. All of them have been subject to a documented review by the Independence team. Directorships of all Dutch professionals are monitored through a dedicated database. All confirmations provided by Dutch Professionals are reviewed and approved if authorized by our policies. Additional monitoring through public records exists for all partners and executive directors. Indeed, on a regular basis our RM organization searched public records to assess whether any Partner or Assurance Director holds a position that was potentially not disclosed.

Gifts and Hospitality arrangements are reviewed by our central RM team. Following the new rules under the ViO, we actively communicated on the €100 limit for activities with assurance clients. In accordance with the ViO, the EY policy in the Netherlands stipulates that assurance clients' representatives will no longer be invited for social events and pleasure activities with a value above €100. Neither will professionals from EY accept such invitations from assurance clients.

Our Data Quality monitoring enables us to determine that data supporting independence compliance is correctly reflected in our systems. During the 2013/2014 cycle of monitoring acceptance and continuance of clients and engagements, our RM Team expanded its use of exception-based reports to improve the quality of our core data available throughout our systems. Additional key controls have been put in place during the year, designed to review acceptance and continue processes.



## Creating high-performing teams

EY member firms are building a better working world for their people by developing outstanding leaders and creating a culture of high-performance teaming. Our people are encouraged to build their skills and experiences, learn from each other, and deliver exceptional client service. This culture of high performance is supported by EY member firms' commitment to recruiting, managing and retaining top talent; learning and development; and EY member firms' inclusive culture.

This is why one of our strategic objectives is to attract and build lifelong relationships with a diverse group of talented assurance professionals.

We are proud of our inclusive people culture, and we are committed to doing even more to advance our people's development.

### Recruitment and hiring

Recruiting for our audit practice is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience. Candidates are evaluated based on the following competencies:

- Intellectual competence
- Leadership skills
- Team/personal skills
- Motivation
- Communication skills

EY aspires to have a leading people culture everywhere in the world. We believe that creating a culture that attracts, retains and develops outstanding people leads to higher quality service.

In 2013/2014 our Assurance service line welcomed 249 new employees; 84 women and 165 men.

As of 30 June 2014, our firm had 2,063 employees on a full-time basis (1,899 on 30 June 2013). Of these employees 1,493 FTE worked for our Assurance Service Line (1,422 FTE on 30 June 2013). We had 138 FTE partners (133 on 30 June 2013). Of these partners, 99 worked for our

Assurance Service Line (97 on 30 June 2013). 35 executive directors worked for our Assurance Service Line (35 on 30 June 2013). Absenteeism was 2.4%. In addition, parental leave amounted to 0.5%. Staff turnover at our firm was 17% (previous fiscal year 22%); in the assurance service line 17% (previous fiscal year 21%).

### Staff turnover

Employees that left our assurance service line in 2013/2014	Women	%	Men	%
0-3 year experience	38	18%	57	15%
4-6 year experience	21	22%	24	11%
6 year and more experience	30	16%	60	14%
Overall turnover	89	18%	141	14%

Employees that left our assurance service line in 2013/2014	Women	%	Men	%
Above average last rating	14	10%	33	9%
Average last rating	50	20%	61	14%
Below average last rating	25	22%	47	19%
Overall turnover	89	18%	141	14%

### Valuing diversity and inclusiveness

The global workforce is becoming more diverse as a result of an increasingly mobile international workforce and demographic and social shifts. For global organizations such as EY, an important aspect of creating the right working environment is a focus on inclusiveness.

Inclusiveness is essential to making the diverse mix work. It is about equity and opportunity – making sure that differences are celebrated so that talented people from any background can rise to the top and ensuring that opportunities to develop and advance are available for all from day one.

It is a source of pride for us that EY member firms are regularly cited by external organizations as being leaders in diversity practices and for providing an excellent working environment.

## Continuing education of statutory auditors

### Professional development

The EY career development framework, EYU, provides our people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all of our people develop the right technical and personal leadership skills, wherever they are located around the world. Core audit training courses are supplemented by learning programs that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues. We require our audit professionals to obtain at least 20 hours of 'continuing professional education' each year and at least 120 hours over a three-year period. Of these hours, 40% (8 hours each year and 48 hours over a three-year period) must cover technical subjects related to accounting and auditing.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on the job. Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment. We also manage the assignment of our people to particular engagements in a systematic way that ensures they have exposure to a range of experiences as part of their own development.

During fiscal year 2013/2014, our firm's professionals spent 220,000 learning hours as compared to 255,000 in fiscal year 2012/2013. Currently we are investing under the name 'World Class Learning' in innovation and renewal of our training program. A reassessment of the learning program allows for increased focus and more efficient delivery (including web based learning and training on the job) resulting in less program hours spent whilst increasing effectiveness.

The hours include staff and senior staff external education hours (125,000) to become auditor, one day a week on average per year. The remainder (95,000) equals on average some 80 hours per professional. 100% of our professionals met the learning effort requirements regarding continuing professional education (*Permanente Educatie, PE*), professional skepticism and - where applicable - IFRS and/or US GAAP & US GAAS.

To service the public interest in a manner that is of the highest quality standard, our professionals are not only continuously trained in their application of professional skepticism but also in their skills to maintain high quality relationships with stakeholders whilst meeting public interest expectations when communicating regarding the audit. This requires multiple competencies that are part of our learning programs.

We invested in data analysis learning as part of our investments in innovating our high quality audits with increased client value.

A great deal of effort was put in training our professionals on serving public interest in line with the mandatory NBA learning program *Zeg wat je ziet*. The public interest learning consists of a pre-learning meeting, an interactive session and a workshop. The program was well-received and continues in fiscal year 2014/2015. In addition, we trained partners serving listed entities in their communication in the Annual Shareholders' Meetings of the listed entities.

We continue to train our graduates in the mandatory NBA topic 'professional skepticism' and are convinced that our professionals will benefit from it, and, most importantly, that professional skepticism is better applied during our audits.

The hours invested in learning can be summarized as follows. Detailed information is presented at the next page.

Hours by rank (000)	2013/2014	%	2012/2013	%
Partners and executive directors	11	5%	11	4%
Senior managers and managers	29	13%	35	14%
Senior staff	43	20%	50	20%
Staff	137	62%	159	62%
Totals	220	100%	255	100%

Quality and relevance of our work, i.e. meeting internal and external quality standards when serving the public interest, are the basis of mandatory learning, which is partly based on the ranks and roles of professionals. A high level overview of mandatory trainings are (details in the table on the next page):

- Induction training for new hires, Technical trainings for Staff and Senior Staff, Professional skepticism for graduates.

- Summer courses for our executives during which recent developments and new standards and policies are covered, public interest learning, executive academies and sametime updates, All executives (managers, senior managers, directors and partners) had to take the so-called annual ISA test. This test consists of numerous questions, testing participants' knowledge of our audit methodology and audit standards.
- IFRS and PCAOB (role based).

Main goal of the mandatory training is to enable our professionals to fully comply with accounting and reporting standards, independence and professional standards, and to appropriately address emerging practice issues within EY and in the profession.

We train all our personnel to have adequate and sufficient knowledge in our methodology (GAM) and update each executive on the relevant changes in GAM and our electronic audit file.

#### Accreditation

For specific procedures and clients EY has a system of accreditation. Professionals that work for US SEC client and / or IFRS audit clients need to have a personal accreditation based on training and / or experience hours.

#### Monitoring

At least once a year we monitor the compliance of the executives with their mandatory training requirements. During fiscal year 2013/2014, all professionals have complied with their Permanent Education (PE) obligations. If partners and executive directors exceed this PE requirement, by attending additional trainings, this is taken into account when their quality ratings are established.

#### Performance management

A comprehensive performance management process requires our people to set goals, have clear work expectations, receive feedback and talk about their performance. The Performance Management and Development Process (PMDP) is designed to help our people grow and succeed in their careers. Under the PMDP, periodic job performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with his or her counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of expectations that articulate the knowledge, skills and behaviors that should be maintained and developed for their respective rank. These expectations derive from, and align with, EY's global strategy and values.

Core technical education – number of participants 2013/2014	Introduction	Summer courses, Executive Events	Public Interest	Independence	Sametime updates	ISA test	PCAOB	Total (incl. Other)
Partners and executive directors	-	137	74	116	67	145	60	707
Senior managers and managers	-	318	189	291	184	261	124	1,584
Senior staff	-	255	-	374	169	-	37	1,039
Staff	128	322	-	340	-	-	23	924
Hours per training	80-84	16-32	8	1	4	2-3	4-16	1-10
Total hours	10,496	23,403	2,104	1,121	1,680	812	2,440	46,940

## Knowledge and internal communications

We understand the importance of providing client engagement teams with up-to-date information to help them perform their professional responsibilities.

EY has made significant investments in knowledge and communication networks to enable the rapid dissemination of information and to help people collaborate and share best practice. Examples include:

- Global Accounting & Auditing Information Tool (GAAIT), EY's standard accounting and auditing research tool, includes local and international accounting and auditing standards and interpretative guidance.
  - Publications that keep practitioners and clients informed of the latest reporting regulations and guidance, such as *International GAAP*, IFRS developments and illustrative financial statements, are produced by IFRS Services in Global Professional Practice.
  - *Global Accounting and Auditing News* is a weekly newsletter that covers global Assurance and Independence policies and procedures, news from the International Accounting Standards Board (IASB) and International Federation of Accountants (IFAC), and internal commentary and guidance regarding international accounting, auditing and independence developments.
  - EY's *Point of view* and *Overviews* are publications that provide important perspectives on current public policy and regulatory developments to our profession, stakeholders and capital markets.
  - Practice alerts and webcasts include a range of global and country-specific practice alerts and specific webcasts within the Assurance practice, including those highlighting inspection findings as an opportunity for practice improvement.
- *Your EY Daily News* is an email that alerts colleagues to new content on the intranet, including news about EY's services, clients and people.
  - An internal social network, private to EY, is used by colleagues to share information, work collaboratively, find resources and build relationships. It is fully mobile and can be accessed via the internet on any device or network.
  - Industry-specific insights and learning are provided by each of EY's 16 industry sectors, supported by a dedicated Sector Knowledge Leader and knowledge managers. Account teams also have access to research and analysis professionals. Sector-specific insights and learning are shared via an intranet space, which also highlights sector-specific news, thought leadership, learning modules and key contacts.
  - Client publications address key business issues, such as the biennial global fraud survey, quarterly economic forecasts and insights into issues for businesses considering cross-border investment. Client teams are provided with support materials to take the relevant insights to each client.

Quality-control policy and practice manuals and other guidance materials are included on our intranet. These promote consistency, accuracy, quality and accessibility in our internal and external communications, and they function as a risk management tool. This information, along with guidance materials from outside organizations, is updated regularly and maintained in an electronically searchable format.

## Internal surveys and continuous improvement

We regularly gather data from various quality control processes, such as Audit Quality Reviews, consultation processes and other methods, to further improve policies, practices and training. We supplement this data with surveys of our people every year. The Global People Survey (GPS) gauges what people think about EY's culture and how member firms conduct business, one of the best indicators of their focus on quality. Results from these and other feedback tools help identify where member firms are doing well and where improvements can be made. The results also guide us in establishing action plans and initiatives.

During the first half of 2014, our people survey was held. Out of over 3,000 invitees, more than 2,000 responded. The overall 'engagement' index increased further above the benchmark.

### Employee 's 'engagement'

In a people survey 'engagement' is a combination of perceptions that can have a positive impact on work behavior. These perceptions include satisfaction with the organization, pride, commitment, and a willingness to advocate the organization as a great place to work. When people are engaged they take more ownership in the work they do, make an extra effort when needed, and strive for higher levels of performance.

Research across organizations and industries has shown organizations with higher levels of engagement are more likely to have more favorable business outcomes such as: higher retention rates, higher levels of individual performance, higher client satisfaction ratings, and stronger financial performance.

EY's own research relating its survey results to its business metrics supports these findings. Specifically, higher engagement levels at EY have been found to be significantly related to amongst others increased levels of retention and higher favorability ratings from clients. Furthermore, those groups within EY performing in the top quartile on engagement yield significantly more gains in these areas than those at average levels.

Our professionals responded that they are proud to work at EY in the Netherlands. They responded that working at EY in the Netherlands offers them valuable experience and the ability to develop.

Our people have told us, through the GPS and other forums, that being part of a team that is inclusive and has a clear direction leads to increased engagement. Therefore, to maximize the engagement of all our employees, embed a high performance culture within our business, and foster greater teaming across EY, Counseling Families will be implemented in 2014/2015 in EMEIA, designed to improve communication, connection and career development across the team. Counseling Families are small groups of professionals from all ranks that have regular contact and discuss both our strategy as well as internal and external changes and developments. A Counseling Family provides a forum for members to stay connected, share information, and address work-related topics as well as providing strong support for performance management, career development and experience management processes.

At a global level, EY has been named the world's most attractive professional services employer in Universum's World's Most Attractive Employer rankings for the second year in a row. What's more, we've again been ranked number two among all employers - coming second only to Google - in this annual global survey, which canvasses business students from top academic institutions in the world's 12 largest economies.

## Client surveys and continuous improvement

During fiscal year 2013/2014 we held interviews with clients on the quality of our work and service. In addition, we received completed surveys from clients. Our clients expressed our performance against their expectations, resulting in the feedback that in 80% of the cases we met expectations, in 11% we didn't and in 9% we exceeded expectations. Specific items brought up by our clients are always followed-up and, in consultation with the client, appropriate responses are defined. Progress is monitored and evaluated.

# Revenue and remuneration

## Financial information

The financial information presented below for EY The Netherlands represents combined, not consolidated, revenues and includes expenses billed to clients and revenues related to billings to other EYG member firms. Also, revenue amounts disclosed in this report include revenues from both audit and non-audit clients.

Revenue is presented in accordance with our management information. 'Other assurance services' revenue includes accounting and financing services; certain due diligence services; and risk-related services including internal controls, internal audits, technology and security, Sarbanes-Oxley (SOX) compliance, actuarial, fraud and forensics, and other attestation services. 'Other non-audit services' revenue includes transaction, valuation, performance improvement, restructuring and other advisory-related services.

### Revenue and gross profit per partner

As of 30 June 2014 Ernst & Young Accountants LLP consisted of 138 partners (2012/2013: 133). In the financial year ending 30 June 2014, the average revenue per partner was EUR 2.9 million. Non-assurance and tax services revenues at OOB audit clients, as mentioned in the top row of the table on the next page, decreased slightly because existing engagements have been finalized.

Gross profit per partner is disclosed in the Integrated Annual Review of Ernst & Young Nederland LLP. The partners are entitled to the profit through their private limited liability company (*besloten vennootschap*, BV) in which costs such as salary, pension, business expenses, depreciation, insurance premiums, wage tax, social security premiums and the BV's corporate income tax liability are accounted for. Our financial statements are included in our Integrated Annual Review, that is disclosed at our website.

## Revenue segments

(€000)	2013/ 2014	%	2012/ 2013	%
Statutory audits	199,830	32%	198,287	31%
Other assurance	50,816	8%	48,724	8%
Audit/other assurance	250,646	40%	247,011	39%
Compilation	21,651	3%	23,993	3%
FAAS	7,656	1%	4,233	1%
Fraud investigation and dispute services	4,450	1%	6,473	1%
Other assurance-related	28,358	4%	26,525	4%
Total assurance-related	62,115	9%	61,224	9%
Assurance	312,761	49%	308,235	48%
Other service lines	82,005	13%	94,109	15%
Ernst & Young Accountants LLP	394,766	62%	402,344	63%
Ernst & Young Belastingadviseurs LLP	201,992	32%	199,535	31%
Ernst & Young Nederland LLP and subsidiaries <sup>1</sup>	13,902	2%	14,501	2%
Rendering services	610,660	96%	616,380	96%
Other income	24,615	4%	23,087	4%
Ernst & Young Nederland LLP - consolidated	635,275	100%	639,467	100%

<sup>1</sup> Ernst & Young Actuarissen BV, Ernst & Young VAT Rep BV, Ernst & Young CertifyPoint BV

2013/2014 (€000)	Statutory audit services	Other assurance services	Total assurance services	Assurance-related services	Advisory and transaction advisory services	Tax advisory services	Other non-audit services	Total
Audit clients – statutory audit – WeCo/OOB	46,958 79%	2,023 3%	48,981 82%	6,504 11%	687 1%	3,412 6%	105 0%	59,689 100%
Audit clients – WeCo/non-OOB	152,872 58%	5,151 2%	158,023 60%	20,368 8%	26,824 10%	54,692 21%	3,370 1%	263,277 100%
Assurance clients – non-WeCo		43,642 64%	43,642 64%	4,512 7%	6,015 9%	11,608 16%	2,394 4%	68,171 100%
Assurance clients – assurance-related				30,731 65%	4,160 9%	11,441 24%	777 2%	47,109 100%
Other clients					44,319 26%	120,839 70%	7,256 4%	172,414 100%
Rendering services	199,830	50,816	250,646	62,115	82,005	201,992	13,902	610,660
Other Income								24,615
Total								635,275

2012/2013 (€000)	Statutory audit services	Other assurance services	Total assurance services	Assurance-related services	Advisory and transaction advisory services	Tax advisory services	Other non-audit services	Total
Audit clients – statutory audit – WeCo/OOB	49,058 65%	1,889 3%	50,947 68%	7,544 10%	9,496 13%	5,116 7%	2,131 3%	75,234 100%
Audit clients – WeCo/non-OOB	149,229 58%	4,244 2%	153,473 60%	15,991 6%	25,696 10%	57,013 22%	4,135 2%	256,308 100%
Assurance clients – non-WeCo		42,591 62%	42,591 62%	3,904 6%	6,121 9%	14,434 21%	1,873 3%	68,923 100%
Assurance clients – assurance-related				33,785 48%	17,978 26%	17,997 26%	644 1%	70,404 100%
Other clients					34,818 24%	104,975 72%	5,718 4%	145,511 100%
Rendering services	198,287	48,724	247,011	61,224	94,109	199,535	14,501	616,380
Other Income								23,087
Total								639,467

## Partner remuneration

Quality is at the center of our business strategy and a key component of our performance management systems. Our partners and other professionals are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results. Our policy regarding appointment, evaluation and compensation of board members is disclosed on our website.

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in EY's member firms around the world. It reinforces the global business agenda by linking their performance to wider goals and values. GPPM is an ongoing, cyclical process that includes goal setting, personal development planning, performance review, and recognition and reward. It is the cornerstone of the evaluation process to document partners' goals and performance. A partner's goals are required to reflect various global priorities, one of which is quality.

We prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-assurance services to their audit clients. This reinforces to our partners their professional obligation to maintain our independence and objectivity.

Specific quality and risk management performance measures have been developed to account for:

- Technical excellence
- Living the EY values as demonstrated by behaviors and attitude
- Demonstrating knowledge of, and leadership in, quality and risk management
- Compliance with policies and procedures
- Compliance with laws, regulations and professional duties
- Contributing to protecting and enhancing the EY brand

Our partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured by the GPPM process. Partners are assessed annually on their performance in delivering quality, exceptional client service and people engagement alongside our financial and market metrics.

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We operate a cap system so that a partner's overall year-end rating is always aligned with the partner's quality rating.

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To recognize different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when calculating total reward:

- Seniority
- Role and responsibility
- Long-term potential
- Mobility

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include separation from Ernst & Young Accountants LLP.

An important part of our firm's partners' quality assessment is based on information resulting from our AQRs and input provided by the Compliance Office, the Independence Desk, the Professional Practice Group and the General Counsel. This information results in a separate quality rating that is part of the GPPM process on a 3-point rating scale ('did not meet expectations', 'met expectations', 'exceeded expectations'). This process is completed annually before the end of October. There is a cap on the overall rating if the assessment of either the Quality and effective risk management or the People engagement and teaming metric is 'did not meet expectations'. In such circumstances, a partner/executive director cannot receive an overall rating higher than a 3 and may be considered for a 2 rating on a scale of 1 (low) to 5 (high).

When performing below expectation, especially on quality, assurance partners are no longer entitled to performance awards and, as a rule, their profit shares may be reduced by 5% to 15%. Four of our assurance partners registered as external auditors incurred a downward adjustment to their remuneration due to their quality performance (2012/2013: two). The maximum penalty amounted to 15% of the partner's earnings, which was a result of poor performance on quality.

Outperforming partners can be granted performance awards generally ranging from 5% to 25%, averaging 10%. To qualify for performance awards, quality must meet or exceed our standards. This fiscal year 62% of the partners are granted awards for their performance.



## Working with our stakeholders and communities

### Stakeholder dialogue

As an auditor of listed companies and other public interest entities, Ernst & Young Accountants LLP is acutely aware of the important public interest role we play in promoting trust and confidence in business, capital markets and economies.

We take our public interest responsibilities seriously, and we work hard to maintain an open and frank dialogue with our stakeholders as part of our broader commitment to building a better working world. When meeting with our stakeholders, we seek to better understand their points of view and provide our perspective. We support improvements in corporate governance, financial reporting and other matters that affect our capital markets more broadly.

Our environment is shaped by a wide range of policy makers, including governments, regulators, standard setters and international organizations. EY is engaging increasingly with global organizations like the Financial Stability Board, the International Forum of Independent Audit Regulators, the Basel Committee on Banking Supervision, the Organisation for Economic Co-operation and Development (OECD) and the International Organization of Securities Commissions. EY also participates in global forums, such as those held by the World Economic Forum in Davos and elsewhere, that bring together thought leaders on issues important to us and our stakeholders.

#### Selected stakeholder engagement globally in 2014

During the past year, international organizations and policy makers around the world have focused on a number of issues affecting our profession, including audit quality, the role and relevance of audit, and developments in corporate and auditor reporting. Policy options such as enhanced auditor reporting, more meaningful corporate disclosure, mandatory audit firm rotation or tendering, and increased transparency of audit committee auditor oversight continue to be debated in a number of jurisdictions.

Notably, in 2014 the European Union adopted audit legislation that will have a significant effect in the EU and beyond. Among other provisions, the legislation imposes mandatory audit firm rotation for the statutory audits of public interest entities across the EU. The legislation will also apply to EU public interest entity subsidiaries of companies headquartered outside the EU. Therefore, while the impacts of the legislation will be greatest in the EU, it will affect many companies and their investors outside the EU.

EY has met regularly with investors, regulators, legislators and other stakeholders in 2014 to discuss all these issues. These conversations have highlighted the importance of strong corporate governance, with active and engaged audit committees that are transparent with shareholders about their oversight of the external auditor.

Due to the importance of sound corporate governance to effective financial reporting, EY has also enhanced our engagement with the OECD as it works to revise its Corporate Governance Principles. Significant changes have occurred in corporate governance frameworks in the 10 years since the Principles were last updated, including the growth of independent audit committees in many countries. The Principles serve as guidance for corporate governance frameworks in jurisdictions around the world and therefore have a global impact.

Investors are among EY member firms' key stakeholders. This past year EY has continued to increase our investor engagement around the world to make sure we understand investor perspectives on auditing, financial reporting, corporate governance and other capital market issues. The aim is to bring together the key participants in the reporting community for dialogue on issues that are of mutual interest. EY has engaged with investors in several different ways, including co-hosting a conference with the Hungarian Ministry for National Economy in Budapest on corporate governance, attended by investors, companies and academics from several central and eastern European countries.

EY members of the EY Network also held a workshop with investors in the UK to discuss aspects of EY's audit methodology, governance and other key topics. EY members of the EY Network also continued to hold private dialogue dinners with investors and other stakeholders from around the globe to foster discussion about ways to improve corporate governance. These dinners are independently moderated and held on a Chatham House or off-the-record basis to encourage frank discussion.

EY continues to participate in the Global Auditor Investor Dialogue, an informal network of leading global institutional investors, and major global auditing networks to exchange views on current financial reporting and auditing issues. EY also continues to be a member of the Asian Corporate Governance Association and a frequent sponsor of International Corporate Governance Network conferences. Engagement with these organizations enhances EY's perspectives on a wide variety of policy matters. We value the opportunity to better understand the views of investors and others.

#### Dutch Code for Audit Firms & Public Interest

The main objective of the Dutch Code for Audit Firms (*Code voor Accountantsorganisaties*) is clear - safeguarding the public interest in audit firms. Society's trust in the reliability of auditor's reports is the foundation of our profession. Therefore, we subscribe to the principles and best practices of the Code. We pledged to implement the Code by signing a covenant with the NBA in June 2012. By signing the covenant, we confirmed our commitment to put the public interest first. During fiscal year 2013/2014, our firm adhered to the Code.

To ensure that we comply with the Code, we defined three workflows dealing with different aspects of the implementation process: the establishment of a Public Interest Committee, intensification of our internal and external stakeholder dialogue, and compliance with all legal and organizational requirements following from our adherence to the Code.

#### *The Public Interest Committee*

An essential element of the Code is the establishment of a Public Interest Committee (*Commissie Publiek Belang*, CPB) within an audit firm. The CPB's main task is to monitor how an audit firm ensures that the public interest takes priority over other interests in internal procedures and decision-making. More details on the CPB can be found elsewhere in this Transparency Report and on our website. A report by the CPB on its activities is also included in this Transparency Report.

#### *The Stakeholder Dialogue*

The Code stresses the importance of an audit firm's dialogue with its stakeholders. At EY, we regularly meet with our external stakeholders (shareholders, government, regulators, non-executives, executives and others) in different forums. Further to our adherence to the Code, we decided to intensify and structure this stakeholder dialogue.

To this end, we established a Stakeholder Dialogue Steering Committee within our firm during the first months of 2013. The Chairman of our CPB is a member of this steering committee. We believe a constructive and regular dialogue with our main stakeholders about the role of the auditor and the content and relevance of our profession is a vital component of our mission to serve the public interest. After all, in a society that changes ever more rapidly, the needs, interests and demands of our stakeholders change, too. Therefore, defining the public interest is a continuous exercise which includes a dialogue with the stakeholders who make up the very 'public' we have a duty to serve.

For that reason, in fiscal year 2013/2014, we organized meetings with our external stakeholders to discuss their views on the public interest and the way the auditor should prioritize it. The steering committee scheduled various Round Tables with shareholders, non-executive directors, CEOs, CFOs and regulators, as well as a small number of meetings in a private, informal setting with politicians, regulators and academics. CPB members participate in many of these events.

Where appropriate, we introduced the 'public interest' subject from our stakeholder dialogue in other external events our firm organizes. In a number of internal and external publications, we reported on the stakeholder dialogue, made proposals and put forward our opinions on the way the auditor should put the public interest first.

We also organized internal events for our partners and employees to explain the importance of the Code and further embedded its 'public interest first' message throughout our organization. This dialogue with our internal stakeholders took place through various workshops, courses and meeting sessions between our leadership and the partners and managers in our firm.

#### *Compliance with the Code*

We fully support the values and principles of the Code. Many of the best practices it establishes were already embedded in our processes and/or communications when we pledged to implement it. Since then and where necessary, we have adapted our processes and extended the information provided in this Transparency Report and on our website to ensure that we not only work within the spirit of the Code but are also in formal compliance with it.

A detailed overview of our compliance with the Code is disclosed on our website. This Transparency Report either reflects the items mentioned in Dutch Code for Audit Firms or refers to other (website) disclosures regarding items not included.

For more about our views

A selection of recent thought leadership is available on the EY Insights application for mobile and tablet devices.

## Commitment to our communities

Our commitment to building a better working world begins with our people and extends to the work we do with clients and other stakeholders in the marketplace. The net effect is the benefit this generates for communities around the world. The most significant impact we have on society is by our support of global and local economic stability and growth, which addresses some of the major issues that the world is facing.

EY supports organizations and activities that contribute to building a better working world at the global, regional and local level. EY is proud to be part of the UN Global Compact and has pledged to uphold its ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption. EY reports its progress every year.

Supporting communities through time and resources

We contribute both through the giving of our people's time and our financial resources to not-for-profit organizations that are aligned with our corporate responsibility strategy, as we believe that this is where we make the biggest impact and address the most pressing needs of the communities in which we live and work.

Our engagement with society is about sharing our knowledge and professional skills. We encourage all our people to take part in projects run by socially engaged organizations in order to widen their outlook and enhance their personal skills. Our own activities as a firm in this area are coordinated by the EY Foundation, which was set up especially for this purpose. Sports sponsorship also commands a prominent place within our community engagement. Love of sport is in our genes and complements what we stand for: we want our staff and clients to develop their talents and make maximum use of their potential.

During fiscal year 2013/2014, many diverse and very successful projects allowed others to benefit from our expertise in accounting, tax, finance and general business advice. Our focus lies on not-for-profit organizations that are engaged in sustainable entrepreneurship, the environment and education. These are the priorities when we engage with our communities. We support these organizations chiefly by sharing our knowledge and competences with them. We have entered into three partnerships with not-for-profit organizations since the Foundation was set up: Urgenda, Business in Development (BiD) Network and Enviu.

We encourage our people to perform voluntary pro bono work with these selected organizations and to take part in thought leadership projects, such as the *Ondernemen zonder Grenzen* competition for entrepreneurs that intend to start business in developing countries. On top of that, we challenge

our people to start their own project through our Sustainability Accelerator program. Several social entrepreneurs have been advised by our colleagues through this program.

Demonstrating environmental stewardship

We believe that we have an important role to play in building an environmentally sustainable world. As such, we're challenging ourselves to work in an environmentally responsible manner and to find new ways to reduce our carbon footprint, which comes mainly from business travel and energy consumption. EY continues to build out its greenhouse gas measurement and reporting. Working with Climate Change and Sustainability Services professionals in EY member firms, we have established a global methodology for calculating environmental impacts. EY is looking for ways to evolve and employ leading practices to make sure we have a credible global footprint.

### The UN Global Compact's ten principles

#### *Human rights*

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. Make sure that they are not complicit in human rights abuses.

#### *Labor*

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labor;
5. The effective abolition of child labor; and
6. The elimination of discrimination in respect of employment and occupation.

#### *Environment*

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility; and
9. Encourage the development and diffusion of environmentally friendly technologies.

#### *Anti-Corruption*

10. Businesses should work against all forms of corruption, including extortion and bribery.



## Statement of the Policymakers

The policymakers confirm their responsibility for designing and maintaining the system of quality control. In conformity with EY's guidelines and regulations, reviews were held, focusing on the effectiveness of the systems of quality control, during and after the fiscal year ended on 30 June 2014. The AQR 2014 report, reports of the Compliance Officer and the present Transparency Report were discussed and adopted in the meeting of 23 September 2014 between the policymakers and the Compliance Officer. That date is considered the date of the review of the system of quality control.

Based on the outcome of the reviews and reports referred to above and reports by the Compliance Office and other departments during the year, the policymakers confirm the following:

- This report provides an accurate and general description of the system of quality control, and the system is effective.
- Internal supervision has been carried out with respect to compliance with laws, independence regulations and other professional regulations.
- Ernst & Young Accountants LLP pursues an effective policy for the structured maintenance of the basic knowledge of its employees and partners and keeping them up to date on developments in their respective fields.

Rotterdam, 30 September 2014

Michèle Hagers (Chairman)

Joep Heijster

Jaap Hetebrij

Rob Lelieveld

Patrick Rottiers

Yves tiberghien

Jules Verhagen

## Appendix 1: Ernst & Young Accountants LLP Dutch law public interest entity audit clients (OOB's)

In the financial year ended on 30 June 2014, Ernst & Young Accountants LLP performed statutory audits of the following OOB's:

Actua Schadeverzekering N.V.  
Adecco International Financial Services B.V.  
AEGON Bank N.V.  
Aegon Levensverzekering N.V.  
AEGON N.V.  
AEGON Schadeverzekering N.V.  
AEGON Spaarkas N.V.  
Algemene Friese Onderlinge Schadeverzekeringsmaatschappij "Zevenwouden" U.A.  
AMG Advanced Metallurgical Group N.V.  
AnderZorg N.V.  
Anthos Bank B.V.  
Arena 2007-I B.V.  
Arena 2009-I B.V.  
Arena 2011-I B.V.  
Arena 2011-II B.V.  
Arena 2012-I B.V.  
Ares Euro CLO I B.V.  
Ares European CLO II B.V.  
ASTARTA Holding N.V.  
Azivo Zorgverzekeraar N.V.  
Ballast Nedam N.V.  
Bank Mendes Gans N.V.  
Bank of Tokyo-Mitsubishi UFJ (Holland) N.V.  
BCR Finance B.V.  
BEST 2010 B.V.  
Beter Bed Holding N.V.  
BinckBank N.V.  
Blue Square Re N.V.  
BNP Paribas Fund II N.V.  
BNP Paribas Fund III N.V.  
Brit Insurance Holdings B.V.  
CELF Loan Partners B.V.  
CITADEL 2010-I B.V.  
CITADEL 2010-II B.V.  
CITADEL 2011-I B.V.  
CNH Industrial N.V.  
Columbia Securities N.V.  
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.  
DARTS Finance B.V.  
Delta Lloyd Azië Deelnemingen Fonds N.V.  
Delta Lloyd Bank N.V.  
Delta Lloyd Deelnemingen Fonds N.V.  
Delta Lloyd Dollar Fonds N.V.  
Delta Lloyd Euro Credit Fund N.V.  
Delta Lloyd Europees Deelnemingen Fonds N.V.  
Delta Lloyd Investment Fund N.V.  
Delta Lloyd Levensverzekering N.V.  
Delta Lloyd Mix Fonds N.V.  
Delta Lloyd N.V.  
Delta Lloyd Rente Fonds N.V.  
Delta Lloyd Schadeverzekering N.V.  
Delta Lloyd Select Dividend Fonds N.V.  
Delta Lloyd Zorgverzekering N.V.  
Demeter Investments B.V.  
DUNIA Capital B.V.  
EADS Finance B.V.  
Eerste Friese Onderlinge Paarden Verzekeringsmaatschappij U.A.  
ELM B.V.  
EMF-NL 2008-1 B.V.  
EMF-NL 2008-2 B.V.  
EMF-NL Prime 2008-A B.V.  
ENEL Finance International N.V.  
Enel Insurance N.V.  
ENEL Investment Holding B.V.  
Enexis Holding N.V.  
Eurocommercial Properties N.V.  
European Aeronautic Defence and Space Company EADS N.V.  
European Assets Trust N.V.  
Eurosail-NL 2007-1 B.V.  
Eurosail-NL 2007-2 B.V.  
Fortuna Entertainment Group N.V.  
Friesland Bank N.V.  
Generali Finance B.V.  
Generali Levensverzekering Maatschappij N.V.  
Generali Schadeverzekering Maatschappij N.V.  
Global City Holdings N.V.  
Global Credit Return Fund N.V.  
Global Loan Opportunity Fund B.V.  
Green Lion I B.V.  
GTB Finance B.V.  
HeidelbergCement Finance B.V.  
Highlander Euro CDO B.V.  
Highlander Euro CDO II B.V.  
Highlander Euro CDO III B.V.  
Highway 2012 I B.V.  
Holland Colours N.V.  
Hypenn RMBS I B.V.  
Iberdrola International B.V.  
IllyNL B.V.  
ING Bank N.V.  
ING Beleggingsfondsen Paraplu III N.V.  
ING Groep N.V.  
ING Insurance Services N.V.  
ING Re (Netherlands) N.V.  
Insinger de Beaufort European Mid Cap Fund N.V.  
Insinger de Beaufort Umbrella Fund N.V.  
International Endesa B.V.  
IZA Zorgverzekeraar N.V.  
IZZ Zorgverzekeraar N.V.  
Kardan N.V.  
KBC Internationale Financieringsmaatschappij N.V.  
Koninklijke Brill N.V.  
Koninklijke DSM N.V.  
Macintosh Retail Group N.V.  
Menzis N.V.  
Menzis Zorgverzekeraar N.V.  
Mizuho Bank Nederland N.V.  
Monuta Verzekeringen N.V.  
Movir N.V.  
Mutual Insurance Association "Munis" (Onderlinge Verzekeringsmaatschappij 'Munis') U.A.  
N.V. Bank Nederlandse Gemeenten  
N.V. Levensverzekering-Maatschappij "De Hoop"  
N.V. Nederlandse Gasunie  
N.V. Schadeverzekering Maatschappij De Nederlanden van Nu  
N.V. Univé her  
N.V. Univé Schade  
N.V. Univé Zorg  
N.V. VGZ Cares  
N.V. Zorgverzekeraar UMC  
Nationale-Nederlanden Bank N.V.  
Nationale-Nederlanden Levensverzekering Maatschappij N.V.  
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.  
Nationale-Nederlanden Services N.V.  
New Sources Energy N.V.

Neways Electronics International N.V.  
 NN Group N.V.  
 Northern Lights B.V.  
 OHRA Ziektekostenverzekeringen N.V.  
 OHRA Zorgverzekeringen N.V.  
 Onderlinge Levensverzekering-Maatschappij "s-Gravenhage" U.A.  
 Onderlinge Verzekering Maatschappij Univé "De Onderlinge" U.A.  
 Onderlinge Verzekeringsmaatschappij Univé Groningen U.A.  
 Onderlinge Waarborg Maatschappij Zorgverzekeraar Zorg en Zekerheid U.A.  
 Onderlinge Waarborgmaatschappij "Univé Noord Groningen" B.A.  
 Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Aanvullende Verzekering Zorgverzekeraar U.A.  
 Onderlinge Waarborgmaatschappij Centrale Zorgverzekeraars groep, Zorgverzekeraar U.A.  
 Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg Medifire B.A.  
 Onderlinge Waarborgmaatschappij voor Instellingen in de Gezondheidszorg Medirisk b.a.  
 OOM Global Care N.V.  
 OOM Schadeverzekering N.V.  
 Optas Pensioenen. N.V.  
 Orange Lion 2011-6 RMBS B.V.  
 Orange Lion 2013-8 RMBS B.V.  
 Orange Lion 2013-9 RMBS B.V.  
 Orange Lion VII RMBS B.V.  
 Oranjewoud N.V.  
 Orca Finance Netherlands N.V.  
 PACCAR Financial Europe B.V.  
 Palomboen Cultuur Maatschappij Mopoli (Palmeriaies De Mopoli) N.V.  
 Qiagen N.V.  
 Rabo Herverzekeringsmaatschappij N.V.  
 Rabohypotheekbank N.V.  
 Reis- en Rechtshulp N.V.  
 Robeco Afrika Fonds N.V.  
 Robeco Balanced Mix N.V.  
 Robeco Duurzaam Aandelen N.V.  
 Robeco Dynamic Mix N.V.  
 Robeco Growth Mix N.V.  
 Robeco Hollands Bezit N.V.  
 Robeco N.V.  
 Robeco Safe Mix N.V.  
 Robeco Solid Mix N.V.  
 Rodamco Europe Finance B.V.  
 Rolinco N.V.  
 Ronson Europe N.V.  
 Roto Smeets Group N.V.  
 Saecure 10 B.V.  
 SAECURE 11 B.V.  
 SAECURE 12 B.V.  
 SAECURE 13 NHG B.V.  
 Saecure 7 B.V.  
 Saecure 8 NHG B.V.  
 Saecure 9 B.V.  
 Siemens Financieringsmaatschappij N.V.  
 Silver Birch CLO I B.V.  
 Société Générale Bank Nederland N.V.  
 Stern Groep N.V.  
 Stichting Profile Securitisation I  
 STORM 2010-I B.V.  
 STORM 2010-II B.V.  
 STORM 2010-III B.V.  
 STORM 2010-IV B.V.  
 STORM 2011-I B.V.  
 STORM 2011-II B.V.  
 STORM 2011-III B.V.  
 STORM 2011-IV B.V.  
 STORM 2012-I B.V.  
 STORM 2012-II B.V.  
 STORM 2012-III B.V.  
 STORM 2012-IV B.V.  
 STORM 2012-V B.V.  
 STORM 2013-I B.V.  
 STORM 2013-II B.V.  
 STORM 2013-III B.V.  
 Strong 2006 B.V.  
 STRONG 2011-I B.V.  
 Syngenta Finance N.V.  
 TD Bank N.V.  
 Telefonica Europe B.V.  
 TenneT Holding B.V.  
 Theodoor Gilissen Bankiers N.V.

TIE Kinetix N.V.  
 Tiels Onderling Fonds tot uitkering bij overlijden "Gustaaf Adolf" U.A.  
 UBS Bank (Netherlands) B.V.  
 UBS Investment Bank Nederland B.V.  
 UNIT4 N.V.  
 Univé Dichtbij Brandverzekeraar N.V.  
 Univé Oost Brandverzekeraar N.V.  
 Univé Reest Aa en Linde Brandverzekeraar N.V.  
 Univé Zuid-Holland Brandverzekeraar N.V.  
 UVM Verzekeringsmaatschappij N.V.  
 Van Lanschot N.V.  
 Veherex Schade N.V.  
 Vesteda Residential Funding II B.V.  
 VGZ Zorgverzekeraar N.V.  
 Vimetco N.V.  
 VimpelCom Holdings B.V.  
 VVAA Levensverzekeringen N.V.  
 VVAA Schadeverzekeringen N.V.  
 Würth Finance International B.V.  
 Yapi Kredi Bank Nederland N.V.  
 Ziggo N.V.

In fiscal year 2013/2014 the external auditors of these clients were:

André Wijnsma  
 Anita de Boer  
 Arjan Verwoert  
 Arno van der Sanden  
 Bernard Roeders  
 Bert Hilverda  
 Coen Boogaart  
 Frank Blenderman  
 Frans de Bruijn  
 Gerard Arnold  
 Giljam Aarnink  
 Hildegard Elgersma  
 Hugo Hollander  
 Jaap Hetebrij  
 Jaap Pieters  
 Jan Niewold  
 Jasper Kolsters  
 Jeroen Preijde  
 Jeroen Vernooij  
 Joep Heijster  
 Jos Spijker  
 Jules Verhagen  
 Kees de Lange  
 Kees Reckers  
 Lex van Overmeire  
 Maarten Koning  
 Madelon Bangma-Tjaden  
 Marcel de Kimpe  
 Marcel Huizer  
 Marcel van Loo  
 Mark-Jan Moolenaar  
 Mauk Spierings  
 Nico Pul  
 Nicole Silverentand  
 Niels Noort  
 Nout van Es  
 Oscar Jonker  
 Paul Nijssen  
 Peter de Pater  
 Remco Bleijs  
 René Koekoek  
 Richard Eveleens  
 Rob Goutman  
 Rob Lelieveld  
 Ron de Prie  
 Ruud Bulkman  
 Sander Arkesteijn  
 Stephen Seijkens  
 Steven Spiessens  
 Steven van den Ham  
 Tom de Kuijper  
 Victor Veger  
 Warmolt Prins  
 Wim Kerst  
 Wouter Smit  
 Zaina Ahmed Karim

## Appendix 2: CVs of policymakers and members of the Public Interest Committee

Policymakers as at 30 September 2014



Michèle Hagers (1966) has been a member of our Assurance Management Team since February 2011 and chairman since July 2014. Michèle joined EY in 1989 and became partner in 2000. In recent years Michèle was, amongst other roles, Managing Partner of our Amsterdam office. Michèle is specialized in Asset Management and her clients' experience lies mainly in the fashion and retail industry as well as the health sector. Michèle has served various multinational clients and helped solve significant, complex audit and accounting matters. She has also worked with clients facing complex organizational changes.



Joep Heijster (1969) has been a member of our Assurance Management Team since July 2014. Joep joined EY in 1992 and became partner in 2005. Joep's clients' experience lies in Reals Estate, Hospitality and Construction, as well as in family businesses. He teaches at Maastricht University.



Jaap Hetebrij (1962) has been a member of our Assurance Management Team since July 2007. Jaap joined EY in 1986 and became partner in 1998. In earlier years, Jaap was the Managing Partner of the cluster Apeldoorn/Zwolle/Hengelo, Netherlands Audit Quality Review Leader, and Netherlands Professional Practice Department Leader. Jaap's clients' experience lies in the energy and agricultural sectors. He has worked with various multinationals and PIE's. As of December 2012, Jaap is a member of the Board of NBA, the Dutch Professional body for auditors.



Rob Lelieveld (1962) has been the Markets leader FSO Netherlands since July 2008 and in that role attends the meetings of our Assurance Management Team. He is a member of our Financial Services Region Management Team. Rob joined EY in 1980 and became partner in 1996. He has filled various managerial roles at EY for most of his career. His client portfolio consists mainly of large international financial companies, many of them listed in both the Netherlands and the US. Rob has supervised various large international audit engagements as a Lead Partner for nearly 20 years.



Patrick Rottiers (1965) has been a member of our Assurance Management Team since July 2011. Patrick joined EY in 1988 and became partner in 2000. His experience includes being in charge of HR matters in the Antwerp office and the job of Policies and Practice director. He is currently Assurance leader in Belgium. Patrick's clients' experience lies in Belgian family businesses with foreign activities. He has a deep knowledge of IFRS and US GAAP.



Yves tiberghien (1960) Yves tiberghien has been a member of our Assurance Management Team since September 2014. Yves joined EY in 1987 and became partner in 1996. Yves has been responsible for Accountancy Compliance and Reporting in Belgium. He is currently CFO of EY Belgium and the Netherlands. He was part of the EY Belgian Leadership Team (directie comité) for more than 10 years and held different roles in EY's Continental Western Europe Area before EMEIA was created. Yves's clients' experience lies in Belgian subsidiaries of international groups. He has a deep knowledge of Belgian Tax law.



Jules Verhagen (1963) has been a member of our Assurance Management Team since September 2010. Jules joined EY in 1986 and became partner in 1997. Among other roles, he was chairman of our industry group Health Care and Life Sciences and a member of the partner advisory council from 2004 until 2010. Jules' clients' experience lies in health care and life sciences.

The portfolios of the policymakers are summarized in the table below:

Responsibility	Name	Joined EY in	Policymaker since	Gender	Nationality
Chairman	Michèle Hagers	1989	14-02-2011	Female	Dutch
Markets Netherlands	Jules Verhagen	1986	01-09-2010	Male	Dutch
PPD	Jaap Hetebrij	1986	01-07-2008	Male	Dutch
Talent (incl. HR)	Joep Heijster	1992	01-09-2014	Male	Dutch
FSO Netherlands	Rob Lelieveld	1980	01-07-2008	Male	Dutch
Markets Belgium	Patrick Rottiers	1988	01-07-2011	Male	Belgian
ACR BeNe	Yves tiberghien	1987	01-09-2014	Male	Belgian

## Members of the Public Interest Committee



Dr. Steven van Eijck (1959, male) has extensive experience in academics, politics, business and philanthropy. Among other posts, he is currently Chairman of the Cooperation of Philantropical Associations in the Netherlands (*Samenwerkende Brancheorganisaties Filantropie*, SBF). He was junior minister (*staatssecretaris*) at the Dutch Ministry of Finance (2002-2003) and served as an adviser to the central Government on policies regarding adolescents. Until joining government, Mr Van Eijck was a lecturer in various areas of finance and fiscal policy at Erasmus University (Rotterdam). In addition, and over the years, he has founded various companies. Mr Van Eijck holds a master in Fiscal Economics and a PhD at Erasmus University. He was appointed Chairman of the CPB in 2013 for his first, four-year term.



Professor dr. Mijntje Lückerath-Rovers (1968, female) is professor of corporate governance at Tilburg University/TIAS and among other supervisory roles, is a member of the Supervisory Board of Achmea N.V. She is also a member of the investment funds and the Greenfund of ASN Bank and of the Board of the Dutch Payment Association (*Betaalvereniging Nederland*). Her research focuses on the relationship between executive boards and supervisory boards, including aspects such as transparency, diversity, independence and evaluations. Until 2001, she worked at Rabobank International where – among other functions – she was Vice President Project Finance. Ms Lückerath-Rovers holds a master and PhD in Financial Economics from Erasmus University. She was appointed to the CPB in 2013 for her first, two-year term.



Professor dr. Frans van der Wel (1955, male) is professor of Financial Accounting at VU University in Amsterdam. His work experience includes almost 30 years in auditing at Deloitte and KPMG. During his career as an auditor, Mr Van der Wel held various positions at the NIVRA – at the day the Dutch professional organization for auditors and as such the predecessor of the NBA – including the position of Chairman from 2003 until 2005. Among other activities and memberships, he is a member of the jury of the Henri Sijthoff Prijs, the Dutch award for the best financial report of the year. Mr Van der Wel holds a master and PhD in Business Economics and a master in Law from VU University. He was appointed to the CPB in 2013 for his first, two-year term.

## Appendix 3: Glossary

AFM	Autoriteit Financiële Markten	Dutch oversight authority on (amongst others) the audit profession
AQR	Audit Quality Review	Annual internal review of a number audit files by the firm
BeNe	Belgium-Netherlands region	1 out of 12 regions in EY's EMEIA area
CO	Compliance Office	The department in our firm that monitors compliance of our firm with applicable law and regulations
CPB	Commissie Publiek Belang	Our firm's Public Interest Committee consisting of three independent non-executives
EMEIA	Europe, Middle-East, India and Africa	1 out of 4 areas of EY globally, of which BeNe is a region
EYG	Ernst & Young Global Limited	EY's central entity
EY GAM	EY Global Audit Methodology	A generic set of rules that describe the way we perform our audits globally. Of course, in each audit other applicable regulations (if any) are taken in to account as well
EQR	Engagement Quality Review	Internal review of key audit areas and issues by another professional, independent from the audit team
FSO	Financial Services Organization	1 out of 12 Regions in EY's EMEIA area, the only non-geographical Region in EMEIA
GIS	Global Independence System	Global tool to allow professionals to verify independence requirements for listed entities
GMS	Global Monitoring System	Global tool to register all listed securities held by every professional ranked manager to partner and to assess whether securities might be held
GPPM	Global Partner Performance Management	Performance measurement tool for partners
GTAC	Global Tool for Acceptance and Continuance	Tool structuring the client acceptance and continuance process and resulting in a risk rating score
IFAC	International Federation of Accountants	Global organization for the accountancy profession
IFRS	International Financial Reporting Standards	International set of accounting principles
ISA	International Standards on Auditing	International set of auditing standards

NBA	Nederlandse Beroepsorganisatie van Accountants	Dutch professional association of accountants, the professional body for Dutch auditors
NV/COS	Nadere Voorschriften Controle- en Overige Standaarden	Dutch set of auditing standards, with ISA as a basis and Dutch add-on's
OOB	Organisatie van Openbaar Belang	Public interest entity according to Dutch Law; non-OOB is an entity that does not qualify as public interest entity according to Dutch Law
PCAOB	Public Company Accounting Oversight Board	USA oversight authority on (amongst others) the audit profession
PIE	Public Interest Entity	Public interest entity according to international regulations
PPD	Professional Practice Director	The partner responsible for the Professional Practice Group
PPG	Professional Practice Group	The department in our firm that provides technical support to our audit and other assurance professionals both up front as well as during the audit cycle
QUIP	Quality Improvement Plan	Action plan describing steps and planning to improve quality
RM	Risk Management	Department at region level performing risk management
SEC	Securities and Exchange Commission	Agency of the United States federal government
US-GAAP	Generally Accepted Accounting Principles in the USA	USA set of accounting principles
US-GAAS	Generally Accepted Auditing Standards in the USA	USA set of auditing standards
ViO	Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten	Dutch independence rules issued by NBA, our professional body, regarding independence of auditors at both public interest entities and other entities
WeCo	Wettelijke controle	Financial statement audit required by law; a non-WeCo is a financial statement audit not required by law
Wta/Bta	Wet toezicht accountantsorganisaties and Besluit toezicht accountantsorganisaties	Dutch law and additional rules applicable to audit firms.



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