

Transparency Report 2019 - 2020 Part 1

Ernst & Young Accountants LLP



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Foreword

Welcome to Ernst & Young Accountants LLP's (EYA) Transparency Report 2019/2020. We look back at developments from the year under review and explain our organization and quality system.

This report consists of two parts. Part 1 contains the report of EYA's policymakers, while Part 2 provides more detailed information.

A memorable year

The global pandemic of Covid-19 that impacted peoples lives, businesses and us is the most significant event of FY20 and continues in FY21. We also received the findings and recommendations of the CTA - a committee focused on the future of the accountancy sector - as well as the inspections by the AFM and the PCAOB.

The AFM conducted an inspection on the Big 4's between June 2019 and February 2020, with the PCAOB undertaking its inspection in the autumn of 2019. The AFM results confirmed the preconditions for the quality of statutory audits inspected are significantly better than 3 years ago and we are back to green. Although the report of the PCAOB inspection was not received yet at the time of publication of this transparency report, we do not anticipate any findings.

Last year the Commission of the Future of Auditing (CTA) reported their recommendation. Based on this report the Minister of Finance responded and appointed 2 quartermasters, who published their plan of action. We fully support this plan and will cooperate as much as possible. Furthermore, EY will continue with embedding a quality driven culture and make next steps by innovations in our risk and audit procedures regarding fraud. Also, we will further invest in the roll out of digital audits.

COVID-19 and our work

Protecting the well-being of our employees was our priority and in March 2020 we asked all employees to work from home, cancelled all internal and external physical meetings, and continued to carry out our work for clients with the use of technology that facilitates working remotely. At the time of publishing this report, we are facing the second wave.

We are proud of our employees who demonstrated their flexibility and ability to quickly adapt to this 'new reality'. Our employees continued to focus and be committed to continue to deliver high quality audits.

We are keeping our clients informed and offering advice and support wherever possible.

One example of this is our COVID-19 support program for start-ups and scale-ups. To assist emerging companies

during the COVID-19 crisis, we made the EY Finance Navigator, an easy-to-use financial forecasting tool, available to start-ups and scale-ups free of charge for three months.

'Step Change to Quality' improvement confirmed

We brought the execution phase of SC2Q to a successful close in September 2020 and it will be ended as a program in the coming months. Our conclusion is that we have been able to realize a number of important changes and that many of the goals we have set for ourselves have been achieved. The essence of the program is that we have developed a culture and infrastructure that help us to continuously learn and improve. Going forward, further improvements will be realized as part of our regular business plans and processes.

Our culture focuses on quality control, prioritizing the public interest and on continuous learning and improvement. Internal and external reports by the AFM and the PCAOB confirmed the development we have gone through and provide recommendations for further improvement.

Change in Board of Directors

We would like to thank Jules Verhagen for his achievements as director of EYA. During his 10 years in the role, he was responsible for Markets and acted as vice-chair of the Board of Directors. We are grateful to Jules for how he has further developed and shaped market thinking and the balanced portfolio at EY Assurance. He also made an important contribution as the driving force behind the stakeholder dialogue.

Jules will continue his career at EY and will manage audit teams.

André Wijnsma joined EY Assurance's Board of Directors as policymaker on 1 February and has taken over the Markets portfolio.

The board further consisted of Mirjam Sijmons, Auke de Bos, Patrick Gabriëls, Tom de Kuijper, Nico Pul and me.

Rotterdam, 28 October 2020
Board of Directors Ernst & Young Accountants LLP

Rob Lelieveld (chair)



Key Figures

	indicator	2019 - 2020	2018 - 2019	2017 - 2018
<i>Number of FTEs stable</i>	FTEs partners *	159	162	155
	FTEs (sr.) managers	440	441	425
	FTEs others	1,371	1,381	1,364
	Total FTEs at end of fiscal year	1,970	1,985	1,944
	Average years of experience at EY per FTE	5.9	7.2	6.4
	Number of training hours (x 1,000)	339	329	319**
	Average number of training hours per FTE	172	166	164**
<i>Number of statements decreases as a result of portfolio rationalization.</i>	Number of issued audit opinions of statutory audits	1,863	2,208**	2,544
	Number of issued audit opinions of non- statutory audits	778	1,139	1,376
	Revenue Assurance services in € millions	332	323	324
<i>Number of direct hours fairly stable;</i>	Number of direct hours (x 1,000)	2,692	2,708	2,772
	Direct hours per issued audit opinion (statutory and non-statutory)	1,019	809	602
	Number of indirect hours (x 1,000)	1,987	1,934	1,884
<i>Number of direct hours per financial statement increases.</i>	% overtime	7.3%	7.7%**	8.9%**
	% hours Partners on Financial Audits Public Interest Entities	10.6%	9.8%	10.4%
	% hours Partners on Financial Audits Non-public Interest Entities	5.5%	5.5%	5.4%
	% hours specialists on Audits	10.3%	10.4%**	9.3%
<i>% reviews per statement increases.</i>	Number of auditing and accounting consultations	787	796	930
	Number of accounting reviews	140	142	202
	Total number of reviews with ongoing audits as % # of issued audit opinions (statutory and non- statutory)	18%	15%	12%
	Total number of reviews during ongoing audits:	481	509	543
	▶ of which Engagement Quality Reviews (EQRs)	347	417	484
	▶ of which Key Finding Reviews (KFRs) and Pre-Issuance Reviews (PIRs)	134	92	49
	# hours spent on EQRs	14,920	14,889	14,942
	EQR hours as % of # of hours of audits on which EQR was carried out	1.8%	1.7%	1.7%
<i>AQR results are improving</i>	Number of Audit Quality Reviews (AQRs) on audits	39	42	40
	% AQR results with no or minor findings (rating 1 + 2 without sign no)	95%	93%	80%
	% AQR results with material findings (rating 2 with sign no + 3)	5%	7%	20%
	Number of inspections by PCAOB	3	0	0
	% sufficient results inspections by PCAOB***	100%	-	-
	Number of inspections by AFM	-	-	-
	% sufficient results inspections by AFM	-	-	-
	Number of inspections by other external supervisors	14	38	17
% inspections other external supervisors with sufficient rating	86%	100%	94%	

* Any mention of 'partners' in this report concerns both partners and associate partners, unless otherwise expressly stated.

** Comparative figure adjusted for improved measuring method.

*** The PCAOB's Report is not issued yet, but we do not anticipate any findings.



Report of the policymakers

Building a better working world

EY's purpose is Building a better working world. We want to help clients and their stakeholders to function better. Indeed, our work lays an important foundation for establishing public trust in the financial information that organizations disclose. There are three ways we contribute to this at EYA; over the past year, we have continued to work toward achieving our goals as follows:

1. Our audits enhance economic confidence

As auditors, we have a societal function: to serve the public interest by examining the information our clients disclose in their statutory financial statements. This trust is a foundation of economy. We stand for high-quality services from our professionals who use innovative tools and techniques that can be tailored to the operating environments of our clients and their stakeholders.

2. We train people and create job opportunities

At EYA, we train people to provide high-quality assurance services. Coaching our people and overseeing their personal and professional development is an important part of that, and this experience is important for their career, also if they leave our organization.

3. We contribute to a better working world

We also contribute by providing high-quality assurance services and supporting our clients in conducting and reporting on their business in a responsible and sustainable way. Our program to support start-ups, for example, is a relevant source of economic innovation and development. We also invest our expertise, energy and time in social projects that dovetail with our knowledge and skills. At EY, we understand the importance of 'Giving back to society'.

Code of Conduct

Integrity, respect and teamwork are three values that apply to EY worldwide. These values translate our purpose into concrete action and cooperation in teams. They also

support us when communicating with clients and colleagues, and when potentially making difficult choices.

Values

Our Global Code of Conduct defines these values in terms of the following categories:

- ▶ Cooperate with each other
- ▶ Cooperate with clients and others
- ▶ Act with integrity
- ▶ Display objectivity and independence
- ▶ Respect all intellectual property

At Assurance in the Netherlands, our values and organizational culture are summarized as follows:

- ▶ Serve the public interest
- ▶ Act with integrity and respect
- ▶ Continue to learn and be professionally critical
- ▶ Display teamspirit and leadership

In FY21 EY launched a new strategy which is cascaded across our organization. EY reconfirmed its purpose 'Building a better working world' and will introduce more emphasis on creating long-term value. Currently, the new strategy is made specific to our assurance practice in The Netherlands and will be deployed subsequently.



EY's purpose: Building a better working world

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

The insights and quality services delivered by EY people help build trust and confidence in business and the capital markets. EY auditors serve the public interest by delivering high-quality audits with independence, integrity, objectivity and professional skepticism. In doing so, the EY organization plays a critical role in building a better working world for EY people, clients and communities.

Ambitions

We want to be the strongest brand by providing trust and outstanding quality services to our clients. We aim to lead the development and application of innovative tools and technologies to constantly improve the quality and efficiency of our services. This enables us to meet the expectations of society, our clients and their stakeholders.

We also aim to be the **best employer**. Our organization and the quality of our services depend on our people. Only by having the best employees working for us we can meet our high standards and the expectations that stakeholders have of our services. We have to offer an appealing work environment if we want to attract and maintain the best talent.

In addition, we aim to be the number 1 or 2 organization in our selected markets. We choose which markets to operate in and what position we aspire.

Finally, we aim to achieve sustainable results, both financial and non-financial. Sustainable results are important to allow us to invest in our people, our technology and the innovation of our services.

Quality targets

At EYA, we value our external stakeholders highly, including investors and other providers of capital, as well as regulatory bodies, clients, politicians, NGOs, science, the media and potential new employees. All external stakeholders play a significant role in defining what 'high quality' means in our work. As such, we are constantly in dialogue with them about their expectations and what we can and cannot accomplish, or what we should do or not do. We want to reduce the performance gap and the expectation gap, sometimes by doing better or more and sometimes by reducing misunderstanding.

We translate this into the following quality targets:

- ▶ All engagements must comply with relevant laws and regulations.
- ▶ At least 85% of engagements are assessed by our internal quality evaluation with a '1' (no issues or only minor findings), no more than 15% with a '2' (findings are more than minor, but less than material) and no engagements with a '3' (material findings).
- ▶ Our most important external stakeholders have a positive opinion of our services. They see us as an organization that stands for quality, delivers added value and is socially relevant.
- ▶ External inspections (such as AFM, PCAOB, NBA and NOREA) confirm that we sufficiently meet requirements.
- ▶ If we do not meet one or more of the above criteria, we investigate the root causes and address them. This is because we are continuously learning and improving as professionals and as an organization.

Quality performance

This part of the report focuses on our progress in quality during the period under review and measures it against our quality targets and objectives.

AFM 2019 inspection

The AFM conducted an assessment on the Big 4's between June 2019 and February 2020. This assessment focuses on the key preconditions for good quality of statutory audits.

The AFM has assessed the results of the quality improvement at Deloitte, EY, KPMG and PwC and has looked at how the boards are working on creating a quality-oriented culture, managing quality and applying instruments to permanently safeguard quality. The quality of the statutory audits was not inspected. This assessment is thus an intermediate step.

The AFM concludes:

- ▶ The Big 4 are focusing on quality improvement and a quality-oriented culture

The AFM notes that the Big 4 are systematically focusing on continuous quality improvement in their respective organisations. The boards are setting a good example with their conduct and taking decisions that are in line with a quality-oriented culture. The statutory auditors and staff are also experiencing support in the achievement of a quality-oriented culture. There are challenges with respect to learning from mistakes, pressure of work and the example set by statutory auditors.

- ▶ Quality safeguards need to be strengthened

The quality safeguards support statutory audits and have an important signalling function, for example by detecting problems at an early stage before an audit is completed. The AFM assessed the way in which the Big 4 firms apply these quality safeguards and sees potential for strengthening their application. The firms could for instance tighten their policy and strengthen its conduct, while their boards could improve their insight into this conduct.

PCAOB

In November 2019, the PCAOB carried out an inspection of the quality control system and three 2018 audit engagements. Although the report of the PCAOB inspection was not received yet at the time of publication of this transparency report, we do not anticipate any findings. This is a result we are proud of.

AQR and inspections by other external regulatory bodies

The results of the internal Audit Quality Reviews (AQRs) and inspections by other external regulatory bodies in recent years show a trend of improvement. Page 9 of this report focuses on this in more detail.

Step Change to Quality

In mid-2017, we launched our three-year program, *Step Change to Quality* (SC2Q), to improve the quality of our financial statement audits and our system of quality management. We brought the execution phase of SC2Q to a successful close in September 2020 and the project will be ended as a program in the coming months after completion of internal quality review. Our conclusion is that we have been able to realize several important changes and that many of the goals we set for ourselves have been achieved. We are proud of the results we have achieved as an organization and of our employees who have worked hard to achieve them. We will continue to learn and make further improvements in the years to come.

Below, we discuss the progress and results for each of the four SC2Q focus areas and our performance.

Cultural change

One of the main goals of SC2Q was to create a constructive culture that prioritizes continuous learning and improvement. To assess our progress, we use the Excellence Ladder survey. The survey is carried out every three to five months within our Assurance organization and addresses 12 important issues related to our perception that we can use to manage our organization. Examples include the following:

- ▶ Quality is the most important aspect in my assessment.
- ▶ Do we have the right tone at the top?
- ▶ Do you have sufficient resources to provide the desired quality?
- ▶ Is your workload feasible?
- ▶ Do you receive and provide feedback on time?

Positive trends continue to be visible regarding each of these elements. We have been able to reduce workload for many colleagues and will focus in 2020/2021 on the ones that still experience too high workload.

A second internal assessment concerns the Global People Pulse Survey. We carry out this survey among our employees to better understand how satisfied and engaged they are and how they think our culture is developing. Once in every two years, we conduct an extensive Global People Survey, and in the intervening years we conduct a Global People Pulse, which is a survey with a more limited scope. The most recent assessment was the Global People Survey in late 2019. Approximately 1,600 of the 2,300 Assurance employees in the Netherlands participated, which is a response rate of about 70%. The general index for employee engagement with Assurance in the Netherlands improved to 82% (compared with 77% in 2018 and 80% in 2017).

These figures confirm to us that the measures we took with SC2Q, the leadership program, High Performing Teams and LEAD are taking us in the right direction, and we'll continue to leverage them.

Auditing financial statements

With regard to auditing financial statements, we have set up our organization in such a way that:

- ▶ Our professionals know what they have to do and how to do it. They are supported by good training, good enablers and good coaching during engagements, and management information is provided to safeguard important KPIs.
- ▶ There is sufficient clarity about risk appetite and technical requirements and their application, as well as the discipline to act accordingly. If there are questions about technical requirements and their application, our professionals know which channels to use to find the right answers.
- ▶ Teams share common attitudes and behaviors, and their composition is considering the characteristics of the engagement, including any areas of expertise. Mutual roles and interdependencies are clear.
- ▶ The project management is adequately designed, including managing the expectations of those being audited. Deadlines are realistic and are met (providing there are no unforeseen circumstances).
- ▶ Professionals have sufficient time, and in practice there is capacity to handle unforeseen circumstances. The

office planning function supports this adequately, covering all ranks and areas of expertise.

- ▶ All colleagues receive feedback on areas where there is not sufficient progression (according to internal and external reviews), as well as support to improve on areas of attention.
- ▶ It is also important to pay careful attention to the future. The ability to anticipate and continuously focus on innovation are embedded.

Quality control framework and support organization

The ambition behind SC2Q was an effective quality control framework and support organization. We aimed to achieve this with the following approach:

- ▶ We know who the relevant stakeholders are, as well as the applicable laws and regulations. EY is a 'brand' that stands for quality. The vision, strategy, management, organization and control are effective in meeting these requirements. Internal supervision is effective. Our risk appetite is described, translated into concrete criteria and then implemented. This includes controlled business operations and sound business practices.
- ▶ The professionals who provide services and the required quality of these services are central to our organization. Our support organization focuses on providing these professionals with excellent support within the framework set by management.
- ▶ With sufficient local autonomy for making local adjustments, we benefit from our international network. We adhere to the main structure of our international network as much as possible, so we can benefit and remain connected to it. Within this framework, we also structure our organization on the basis of the so-called 'three lines' model. Roles and tasks are clarified further and further, bearing in mind that when issues arise in a professional organization, they require frequent cooperation and consultation.
- ▶ We distinguish between processes at different levels. The blueprint for all processes includes an effective 'Plan-Do-Check-Act' cycle, and the owner of all relevant processes can issue an annual 'in-control statement' regarding important risks associated with that process. The important processes are described. Responsibilities within these important processes are shown in the RACI tables.
- ▶ Financial and non-financial management information is available to the process owner, and to those who are accountable or need to be informed.

We have made significant progress on these points. The AQRs, as well as the results of the Excellence Ladder and the Global People Survey, confirm this. In addition, during the year under review, we improved our monthly internal management information based on a set of quality performance indicators (QPIs).

More specifically, it is worth noting that:

- ▶ The responses from our service-providing professionals indicate that they consider the support organization to be excellent.
- ▶ The relevant processes and relevant risk & control measures have been described and their functioning has been sufficiently demonstrated.
- ▶ We have been able to provide annual 'clean' in-control statements and have a good integrity risk analysis.

- ▶ We expanded information on the quality of our services to the monthly management information already available on talent, markets, finance, operations and innovation, based on a set of quality performance indicators (QPIs). This enabled us to manage our activities even more coherently. Equally important is the fact that the regional teams as well as our partners responsible for audit engagements have their QPI dashboard at their disposal electronically in the first week after the end of the month, to monitor quality and act when necessary.

We monitor whether there are any signals (or even incidents) we need to follow up on and, when necessary, focus on remediation and continuous improvement.

Stakeholder dialogue

We continue to work on strengthening our relationships with our internal and external stakeholders. We value open communication with our stakeholders. Listening to them helps us identify developments in the public interest and the needs of stakeholders. This, in turn, enables us to enhance the value of our audits, including the quality and relevance, for our stakeholders. As a result, we can build a better working world and achieve our ambition of creating long-term value for our employees, our clients and society. The stakeholder dialogue helps us strengthen our ability to think 'outside in' and accelerate our learning curve. At the same time, the dialogue is the best way to explain our actions, plans and challenges to our stakeholders. That is why we performed another stakeholder dialogue materiality analysis.

During the 2019/2020 reporting year, we maintained and strengthened our relationship with our stakeholders in several ways. Trust in our work and the opinions we express is the basis for our profession. We continued to participate in and contribute to discussions on further steps to reduce both performance and expectation gap.

- ▶ We participated in activities of the Royal Netherlands Institute of Chartered Accountants (NBA). Issues that were discussed included the CTA's recommendations, the problem of small listed organizations without an accountant, fraud, continuity innovation and work pressure, and the recommendations of the MCA, an accounting monitoring committee. We also contribute to the NBA's working group 'Certainty in tomorrow's economy?' and we are a member of the NBA's Public Interest Steering Group to promote sustainable quality improvement in auditing.
- ▶ MCA and CTA performed their work and we shared data and our views during interviews and in writing. MCA and CTA published their report early in 2020. The Minister of Finance appointed two quartermasters that will further assess areas the Minister of Finance asked for. We'll continue to contribute to support them to fulfill their responsibilities.
- ▶ We conducted talks with Dutch politicians and representatives from the media to discuss tax and auditing issues, including the responsibilities of our professionals in these areas. To develop an understanding of the work of our professionals, we also organized one-day sessions, 'The work of an auditor' and 'The gatekeeping role of the auditor, with politicians and journalists.
- ▶ Last but not least, we consult regularly with the AFM, our regulatory body, about our statutory audits of financial statements. This dialogue also covers

developments in the profession, quality initiatives, the AFM's expectations and the results of internal and external inspections.

EY's internal and external stakeholders in the Netherlands:



Performance in relation to quality targets

SC2Q has enhanced the quality of our audit work. Measured against our quality targets, the development has been as follows:

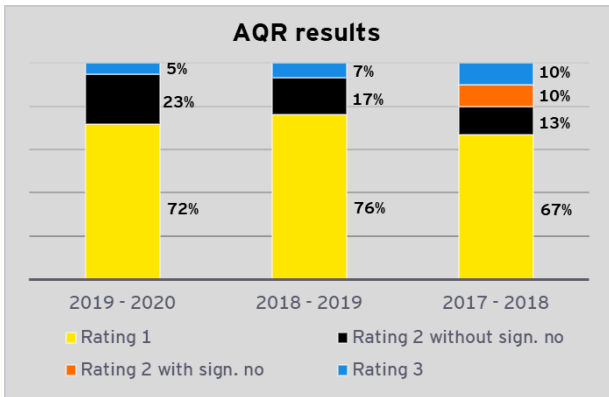
- ▶ **All engagements must comply with applicable laws and regulations.**

We aim for 100% compliance. Although we realize that it is extremely difficult to achieve perfection, we believe - as it is also in the public interest - that this should be our ambition. The following table shows that our level of compliance with laws and regulations on several important subjects has developed positively during the SC2Q period, 2017-2020.

compliance wet- en regelgeving	2019 - 2020	2018 - 2019	2017 - 2018
% timely archiving of audit files, i.e. 60 days	100.0%	99.7%	99.3%
# of reports to AFM as a result of incidents	0	4	1
# of reports to AFM as a result of disciplinary complaints	1	3	2
# of reports to the Dutch Data Protection Authority	0	1	3
# of fines	0	1	0

- ▶ **At least 85% of engagements assessed by our internal quality evaluation system are rated '1'. No more than 15% receive a '2' rating and no engagements receive a '3' rating.**

The following table highlights the development of the results of the AQRs during the SC2Q period.



rating	meaning
1	No or minor findings
2 without sign no	Findings more than minor but less than material, without a significant finding (no)
2 with sign no	Findings more than minor but less than material, with a significant finding (significant no)
3	Significant findings

	2019 - 2020	2018 - 2019	2017 - 2018
# AQRs	38	42	40

95% of our audits have no significant finding. In 2018 this was 80% and last year 93%. The overall results also show that we have not yet reached the desired level of 85% or more 1 rated files and no 3 rated files. 100% of the legally required financial statement audits inspected internally have no significant finding, the first time reaching 100% in the last three years.

For engagements in which significant findings have been identified (a rating of '3' or '2 with significant no'), we decide whether remediation is necessary. Part of remediation is to obtain additional audit information or improve existing audit information.

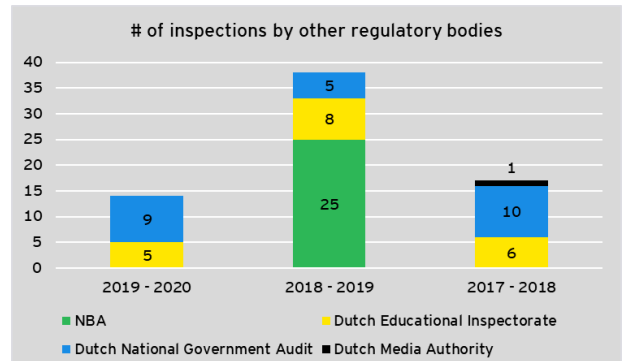
Our continuous learning organization takes all findings into account and assesses how to improve.

► **We score more than adequately on external inspections.**

Highly important external inspections are those conducted by the AFM and the PCAOB. The external inspections by the AFM and the PCAOB helps us to verify the progress internal measurements showed.

In 2019, the AFM examined aspects such as quality-driven culture, the quality system and the quality assurance. The AFM has not carried out inspections of statutory audits with us over the past three years. It is planned for to start in autumn 2020. In addition to the quality controls, the PCAOB assessed three audit engagements in November 2019. Although the report of the PCAOB inspection was not received yet at the time of publication of this transparency report, we do not anticipate any findings. We are proud of this.

In addition to the AFM and the PCAOB, other regulatory bodies have carried out inspections of audit engagements in the past three years. It concerns the NBA, the Dutch Educational Inspectorate, the Dutch National Government Audit and the Dutch Media Authority. The following table presents the findings of these inspections.



	2019 - 2020	2018 - 2019	2017 - 2018
% sufficient inspections other regulatory bodies			
NBA		100%	
Dutch Educational Inspectorate	60%	100%	100%
Dutch National Government Audit	100%	100%	100%
Dutch Media Authority			0%

In prior years we only received a '100% sufficient' score from 'other regulatory bodies'. In 2019/2020, we failed to do so during two inspections, both carried out by the Dutch Educational Inspectorate. We have taken due note of all findings and shared them with our Learning team. We will take these lessons into future audits.

Although in the next fiscal year, to demonstrate our commitment and capability to improve, it is good to note that in September 2020, the Dutch Educational Inspectorate assessed three audit files and verbally communicated that all three qualified as sufficient without findings. We were told it was clear that we had made improvements in the findings that emerged in previous inspections. These three inspections will be included in the Transparency Report 2020/2021.

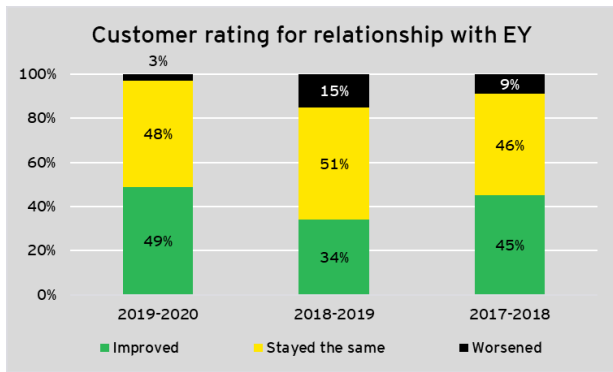
► **Our clients have a positive opinion of our services. They see us as an organization that stands for quality, provides added value and is socially relevant.**

We use our clients' feedback about the quality of our services to continuously improve our work. Public interest is also a key priority in our audits and this primarily includes an objective and substantiated opinion provided in our audit reports. It also includes giving expert feedback to our audit clients, which they can use to improve their organizations, for example, reporting, the internal controls of the reporting processes and their understanding of developments in standards frameworks. This natural advisory function, or sounding board, partly determines the broader quality and added value experienced by audit clients and is key to in the public interest. We gauge customer expectations and satisfaction through the *Client Experience* program within each of our four service lines. The program consists of the following components:

- Expectation of Service Quality (ESQ) interviews are pre-engagement interviews held with our clients to identify their expectations and KPIs regarding the quality of our services.
- Assessment of Service Quality (ASQ) interviews and surveys are held at different phases during engagements and after completion of the engagement.

ASQ interviews are conducted by independent EY colleagues. We aim to contact a substantial number of clients each year including at least one independently chosen client of each EY partner in the Netherlands.

It is very important to us that our services deliver high levels of satisfaction for our clients, and this reporting year, we again used the *Client Experience* program to evaluate our clients' satisfaction. The following figure outlines the positive evolution of the ratings provided by our clients.



The ratings provided by our clients for services delivered during the 2019/2020 reporting year improved substantially when compared to previous years:

- ▶ 49% of respondents believe that their relationship with EY has improved.
- ▶ 48% of respondents state that the quality of their relationship with EY stayed the same.
- ▶ 3% of respondents feel that their relationship with EY is worse than the previous year.

These scores show a positive trend in the appreciation of our services by our clients.

To understand and monitor the needs and concerns of our clients during the pandemic, we developed a special COVID-19 interview. We used this interview to reach out to our clients, to ask how they were doing and offer assistance. Our clients appreciated EY's personal attention to the impact COVID-19 was having on their people and their wider operations.

The Assurance Leadership's commitment to the Client Experience (CX) program played a crucial role in increasing the number of CX activities over the past year. EY Leadership supports the importance of the program and encourages partners to increase their personal contact with clients and share their feedback with the team so we can learn from this.

Step Change to Quality completed, quality improvement continues

We stress the importance of good cooperation between all stakeholders across the chain to sustainably safeguard confidence in the sector and the quality of financial reporting.

As mentioned, we are proud on the progress we made through the Step Change to Quality (SC2Q) program, also noted by our regulators and other relevant stakeholders. We are not putting SC2Q behind us but are rather taking it with us into the future. We will continue down the same 'quality' path and will achieve our goals from within our organization, which has embedded the SC2Q activities.

In the beginning of 2020, the Monitoring Committee Accountancy (MCA) and the Committee on the Future of the Auditing sector (CTA) issued their reports on the audit profession, with several recommendations. The Minister of Finance has responded to these reports, noting that he will follow-up also by appointing two so called 'kwartiermakers' ('quartermasters'). They will follow-up on certain recommendations and make sure to monitor further progress by the audit sector.

In the coming years, we will support the quartermasters to fulfill their assignment, including developing and implementing audit quality indicators and supporting research on alternative structures.

Further, we will continue to invest in embedding a quality driven culture to serve the public interest. We will also continue to invest in innovation, including the roll out of digital tools in audits and we will take steps in our risk assessment and audit procedures regarding fraud and going concern.

We stress the importance of good cooperation between all stakeholders across the financial reporting ecosystem to sustainably safeguard confidence in and the quality of financial reporting.

To conclude, in all these developments we will actively involve young professionals through our Young Professionals Board Assurance to make sure that they can influence the quality and future attractiveness of the profession.





Report of the Supervisory Board

Introduction

It would be inappropriate to start our SB Report in any other way than to comment on the significant impact that the COVID-19 pandemic has had on the business operations of both Ernst & Young Accountants LLP (hereinafter: EYA) and its clients. In the course of the year under review, COVID-19 struck after eight months of business as usual. We were fully focused on our overarching task and responsibility: to supervise the policy of the EYA Board and the general state of affairs of EYA in the Netherlands. In particular, we assessed those areas where such policy and state of affairs could influence or impact the audit activities and organization associated with EYA.

Impact of covid-19

As the COVID-19 pandemic peaked during the four-month period between March-June 2020, we supervised the balancing act of the EYA Board as short-term crisis management became intertwined with mid-term strategy and the longer-term focus on sustainable results. We specifically monitored the consequences of COVID-19, which accelerated the trend of working and serving clients from home. We oversaw how the pursuit of 'sustainable results' reflected the ability to generate earnings, enabling EYA to recruit and retain the best talent - partners and employees - now and in the future.

A Supervisory Board for EYA and new charters

Taking into account the particulars of EY's legal structure, a supervisory board for EYA (SB EYA) was established. The duties and responsibilities of the SB EYA are enshrined in a charter, adopted on 12 February 2020. On 18 December 2019, a revised charter for the already existing supervisory board of Ernst & Young Nederland LLP (SB EYNL) was adopted. Both bodies are jointly referred to as the Supervisory Board or SB hereinafter. The members of both our boards have formed a personal union, implying that the composition of the SB EYNL is identical to that of the SB EYA.

SB and EYA

The SB met with the full EYA Board in January 2020 to discuss a number of specific issues related to EYA. On the agenda were the quality policy as well as the future of the sector and innovative developments on that front. We challenged the EYA Board to enhance the appeal of EYA's profession. And we shared our thoughts with the EYA Board on safeguarding quality in a structural fashion, because further improving quality in the short and long term is an important foundation for reinforcing stakeholder trust. In addition, we reviewed the succession planning process with the EYA Board.

Step Change to Quality

We kept a watchful eye on the progress of Step Change to Quality, the transition program aimed at raising quality to a consistently higher level. As the program entered its final phase and will be closed out later this year after completion of an internal quality review, we challenged the EYA Board to ensure that sufficient, demonstrable and rapid progress was still being made. We supervised management clarification and approval of the key objectives. We assessed the way the transition program intensified, accelerated and broadened our efforts to monitor the EYA Board's endeavor to consistently raise the quality of audit services, from the perspective of both public interest and professional standards. Key drivers in this process included continuous learning and improvement.

We invested considerable time and energy in monitoring the progress of various inquiries, including the Signals and Incidents analysis. We noted with satisfaction that the findings of the AFM inspection have in the eyes of this financial authority put EY 'back on track' and moving smoothly from the 'red zone' into the green. Top of mind throughout this period was to keep the CTA - the Commission for the Future of the Accountancy Sector - abreast of developments in a balanced manner.

Stakeholder Dialogue

We reconfirmed our commitment to the imperative of ongoing dialogue with EY's stakeholders and invested considerable effort in maintaining contact or reconnecting with key stakeholders in our community.

Stakeholder dialogue was originally promoted to facilitate discussion with our international network and other stakeholders - and it proved to be effective. We oversaw how stakeholder dialogue became a cornerstone of EY's integrated reporting efforts. We focused on engaging the public in stakeholder dialogue and identifying, acknowledging and managing potential reputational risk and public interest-related risk. We invested significant time and energy in extensive stakeholder dialogue, regularly talking to stakeholders in the audit sector as well as a broad-based group of EY partners and employees in the Netherlands.

SB Profile

The SB is composed in such a way that a combination of experience, expertise, competencies, professionalism, background, diversity with respect to gender, age and personality, and independence enables us to fulfil this role. We outline how we organized our supervisory duties below.

Meetings and assessments

In the year under review, the SB EYA held six formal meetings and consulted regularly with the EYA Board on covid-19 matters. These meetings, almost without exception, were attended by all members of the SB EYA, with no member being frequently absent for reasons other than illness. Meetings were held with the external auditor to discuss both the approach to the audit process and the audit report itself. We met with the Works Council and attended a variety of events within and outside EY - SB round tables, partner meetings and other periodic gatherings. With the help of external professionals, we conducted a rigorous self-assessment to determine our collective performance as a Board and the performance of each of us. The profile and composition of the SB EYA and the feedback emanating from the aforementioned stakeholders were recurring discussion topics. We held individual performance evaluation interviews with the EYA Board based on non-revenue related criteria around quality, markets, talent and operations. Quality drives the performance evaluation.

Duties and powers

The duties and powers of the SB are communicated in the Charter of the Supervisory Board of Ernst & Young

Nederland LLP (SB EYNL) and the Charter of the Supervisory Board of Ernst & Young Accountants LLP (SB EYA), as adopted on 18 December 2019 and 12 February 2020 respectively. The personal union formed by the SB EYNL and SB EYA means that the members of both corporate bodies mirror one another. In compliance with some elements of the Dutch Corporate Governance Code, the composition, procedures and mandate of the SB are taken into consideration. The findings of the review of the previous charter have been incorporated and include the desired regulatory and legal changes.

Composition Supervisory Board and Committees

On 30 June 2020, the SB consisted of four independent members and one non-independent member and is fully in line with the Supervisory Board profile. More detailed personal information on the board members can be found on our corporate website.

As per 30 June 2020, the SB consists of the following members:

	Date of initial appointment	Term	End of current term	Eligible for reappointment	Public Interest Committee	Quality & Governance Committee	Audit & Risk Committee	Talent & Remuneration Committee
Pauline van der Meer Mohr, Chair	1-7-2015	2	30-6-2023	No	Member	Chair	-	Member
Steven van Eijck, Vice-Chair	1-7-2015 ¹	2	31-1-2021	No	Chair	-	Member	Member
Monique Maarsen	1-7-2015	2	30-6-2023	No	Member	-	Chair	Member
Tanja Nagel	1-9-2017	1	31-8-2021	Yes	-	Member	Member	Chair
Patrick Rottiers	12-11-2018 ²	1	11-11-2022	Yes	-	Member	-	Member

¹ Steven van Eijck also served as a member of the Public Interest Committee of EYA between 1-2-2013 and 1-7-2015

² Patrick Rottiers is the non-independent member

Committees

Audit & Risk Committee

The key task of the Audit & Risk Committee is to assist the SB in fulfilling its supervision activities for internal and external reporting, design and operation of the internal risk management controls, significant capital investments, budget preparation, tax and the external audit function. It is also charged with monitoring compliance with the relevant rules and regulations that govern the provision of financial and non-financial information by EYA. Six meetings as well as additional informal meetings with the Chair of the EYA Chairman of the Board were held during which the COVID-19 pandemic, financial performance versus budget and key risks were discussed. The committee met with the external auditor to discuss the auditors' reports. Particular attention was paid to processing the changes to IFRS regulations. In its regular consultations with the Risk Management and the Internal Audit departments, the Audit & Risk Committee discussed the Risk Management topics, Risks That Matter

and the Quarterly RM NL report as well as the Internal Audit plan and its execution.

Talent & Remuneration Committee

The Talent & Remuneration Committee met four times during the year under review. Diversity policy was on the agenda, as well as the status and progress of the leadership program and succession planning in general with a special effort on preparing succession for some key positions which will become effective in FY21. We fully endorsed the nomination of André Wijnsmas as Markets Leader of the EYA Board, succeeding Jules Verhagen, who after many years of dedicated senior management duties returned to the daily practice of serving EY's clients. Also discussed were the results of the People Survey and the ensuing Talent Plan, as well as the installation of a network of confidential counselors. Other key priorities were aligning promotion and remuneration based on quality and fostering the tone at the top.

Quality & Governance Committee

The Quality & Governance Committee is charged with overseeing compliance with EY's chosen corporate governance structure in the Netherlands. It is responsible for monitoring and advising on audit quality and committee members discussed the results of both the AQR review and the AFM inspection. This committee held four meetings in the year under review, considering amongst others the status and progress of Step Change to Quality as well as signal and incident reporting, the Compliance Officer's report and subsequent discussion of the plan and its execution.

Public Interest Committee

The Public Interest Committee focused on the intensification of the stakeholder dialogue while supporting the SB in monitoring compliance with the public interest. This committee held three meetings in the year under review, and the stakeholder dialogue was on the agenda of each of them. Committee members reviewed and endorsed the 2020 stakeholder dialogue plan and supervised its execution. Monitoring the activities with regard to corporate social responsibility, the status of integrated reporting and the organization's go-to-market approach were other key themes.

Independence and training

Independence

The duties and powers of the SB determine the position of its members under prevailing independence rules. As described in its charters, independence in both fact and appearance is required. The Independence Officer of EY monitors both the financial and personal independence of SB members. As set forth above, all SB members except one qualify as independent in accordance with the regulations. No decisions were rendered by the SB in which conflicts of interest occurred in compliance with the relevant articles of its charters.

Training

The training plan defined for 2019/2020 focused on the priority of audit quality, which we discussed with internal specialists. Another focal area was a perceived gap in IT and digital, which we addressed with external professional assistance. With a view to the ever-changing world in which the SB observes and oversees management by the EYA Board, our members also attended a number of round-table sessions.

Annual reports

Financial Statements

The EYA Board prepared the Financial Statements of EYA. These Financial Statements were audited by BDO LLP. The SB discussed the findings with the external auditor of EYA with EYA Board representatives. The SB approved the Financial Statements on 28 September 2020.

Transparency Report

We reviewed the content of the 2019/2020 Transparency Report, to be published in October 2020, with EYA policymakers. In our view, the developing text and tone of the report is in line with our observations during the past year and representative of the way in which EYA has embedded Step Change to Quality and a broad range of socially relevant topics related to quality.

Outlook

Despite the substantial impact of COVID-19 on day-to-day operations in the last quarter of the year under review, the SB is confident that the EYA Board, with the support of the Board of Directors of EYNL, is capable of and committed to nurturing and fostering the cultural change and quality improvements that reflect the role of the organization in serving the public interest.

We are sensitive to the significance of auditors in society and the imperative of robust and effective supervision of the financial statements of companies and organizations. We are fully aware of ever-increasing stakeholder expectations and have regularly addressed this issue with the EYA Board and the BoD of EYNL. The services that EY provides, both assurance and non-assurance, add value to client business. EY partners and employees, working together in dedicated, multidisciplinary teams, are proud of their work because it has been performed effectively and in accordance with EYA's standards.

We supervised the progress EYA is making toward achieving financial results in line with expectations, despite the impact of COVID-19. We continue to see tangible evidence that EYA is well positioned to address the challenges ahead as the economy in key markets sets out on the road to recovery. Step Change to Quality is delivering results and we have hard-working, knowledgeable professionals taking care of client interests. We are monitoring the way in which the interests of employees and partners of EYA are fostered through the Talent & Remuneration Committee, in which all five of us continue to play an active role.

The culture of EYA is one of connecting and being connected, and we see this reflected in the ongoing flexibility and sensitivity of our organization, underlined by the will to adapt to the new normal. The tone and content of this Integrated Report is fully in line with how we perceive EYA and we would like to express our sincere appreciation and gratitude to the EYA Board as well as all partners and employees for their commitment to EY stakeholders.

Rotterdam, 21 October 2020

Pauline van der Meer Mohr, Steven van Eijck, Monique Maarsen, Tanja Nagel, Patrick Rottiers